

newcity
high yield fund limited



Annual Report & Accounts

30 June 2011

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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 main market of the London Stock Exchange and on the Channel Islands Stock Exchange. 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 net income that is resolved to be distributed. At 30 June 2011 the Company also had bank borrowings of £12.9 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 are 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.

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to what action you should take or about the contents of this document, you should immediately consult an independent financial adviser authorised under the Financial Services and Markets Act 2000 (or, in the case of recipients outside the United Kingdom, a stockbroker, bank manager, solicitor, accountant or other independent financial adviser).

If you have sold or otherwise transferred all of your shares in New City High Yield Fund Limited, please pass this document, together with the accompanying Form of Proxy, as soon as possible to the purchaser or transferee or to the stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.



Financial Highlights

For the year ended 30 June 2011

- Net asset value total return of 19.7 per cent since 1 July 2010.
- Ordinary share price total return of 20.6 per cent since 1 July 2010.
- Dividend yield of 6.1 per cent, based on dividends at an annual rate of 3.87p and a share price of 63.75p at 30 June 2011.
- Ordinary share price at a premium of 7.5 per cent to net asset value at 30 June 2011.

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



— 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

* 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 2011	Year to 30 June 2010	
Total Return			
Net asset value	+19.7%	+34.2%	
Ordinary share price	+20.6%	+33.0%	
	30 June 2011	30 June 2010	% change
Capital Values			
Total assets less current liabilities (with the exception of the bank loan facility)	£133.5m	£91.4m	+46.1%
Net asset value per ordinary share	59.30p	52.99p	+11.9%
Share price (mid market)	63.75p	56.25p	+13.3%
	Year to 30 June 2011	Year to 30 June 2010	% change
Revenue and Dividends			
Revenue earnings per ordinary share	4.67p	4.36p	+7.1%
Dividends per ordinary share	3.87p	3.75p	+3.2%
Dividend cover	1.21x	1.16x	+4.3%
Revenue reserve per ordinary share (after recognition of annual dividends)	2.22p	2.20p	
Dividend Yield (annualised)	6.1%	6.7%	
Premium (difference between share price and net asset value)	7.5%	6.2%	
Gearing (100 = nil geared position)†	109	109	
Annualised Total Expense Ratio (as percentage of average shareholders' funds)	1.2%	1.3%	
	2010/11 High	2010/11 Low	
Period's Highs/Lows			
Net asset value	59.44p	52.79p	
Ordinary share price	67.00p	56.00p	
Premium	13.5%	2.3%	

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

Dividend History

26 August 2011	Fourth interim dividend of 1.32p per ordinary share paid
27 May 2011	Third interim dividend of 0.85p per ordinary share paid
25 February 2011	Second interim dividend of 0.85p per ordinary share paid
26 November 2010	First interim dividend of 0.85p per ordinary share paid
27 August 2010	Fourth interim dividend of 1.20p per ordinary share paid
26 May 2010	Third interim dividend of 0.85p per ordinary share paid
26 February 2010	Second interim dividend of 0.85p per ordinary share paid
27 November 2009	First interim dividend of 0.85p per ordinary share paid



Directors

James West (Chairman) (age 64). 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 Genuity Ltd and Henderson Fledgling Trust plc. He is also a director of British Assets Trust plc, Aberdeen Smaller Companies High Income Trust plc, JPMorgan Income and Capital Trust plc and UK Select Trust Limited.

Gavin Breeze (age 50). 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. He is also a director of Proxima Ltd and MoBank Ltd.

Allister Carey (age 61). 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 The Red Fort Partnership Ltd.

Adrian Collins (age 57). 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 Chairman of Liontrust Asset Management plc and is also on the boards of Douglas Bay Capital plc, City Natural Resources High Yield Trust plc and a number of other companies.

Graeme Ross (age 50). 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 High Yield Fund Limited appointed New City Investment Managers ("NCIM" or "Investment Manager") as its Investment Manager with effect from launch. On 1 October 2007 NCIM joined CQS Cayman Limited Partnership ("CQS"), a US\$11.0 billion global diversified 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.

Ian Francis, who has more than 30 years experience in the sector has day to day responsibility for managing the Company's portfolio and is supported by the NCIM team.

Chairman's Statement

Introduction

Your Company posted another year of strong performance against a most volatile investment backdrop, generating a total return of 19.7 per cent.

Investment and Share Price Performance

The year ended 30 June 2011 saw your Company's net asset value rise by 11.9 per cent to 59.30 pence. When this capital measure is adjusted for the payment of dividends totalling 3.87 pence per share in the year, the net asset value total return was 19.7 per cent.

The share price total return for the same period was a little higher than this at 20.6 per cent, reflecting the continued premium rating attaching to the Company. I return to this subject below.

Dividends

In line with the dividend rate of the prior year, three interim dividends of 0.85p per share were paid on 26 November 2010, 25 February 2011 and 27 May 2011. We increased the fourth interim dividend from 1.20p to 1.32p per share; this was paid after the year end on 26 August 2011. Based on an annualised rate of 3.87p and a share price of [59.5]p at the time of writing, this represents a yield of [6.5] per cent.

Fund Raising

The continuing premium rating that the market attaches to the shares of your Company enabled it, for the third year in a row, to complete in September 2010 a share issue equivalent to 10 per cent of the Company's share capital. £8.6 million was raised from new and existing shareholders, and such was the demand for shares that the Board decided to proceed with a placing and public offer for subscription in November 2010. A further £20.1 million was raised, taking the Company's total assets to some £120 million. As well as a modest increase in net asset value, continuing shareholders can expect to benefit from a lower total expense ratio and greater liquidity in the Company's shares.

Investment Awards

I reported in my Interim Statement to you that the Company had won the prestigious Investment Week UK Income Investment Trust of the Year Award. This public recognition of your Company's excellent performance continued with a 2011 Money Observer Highly Commended for Best High Income Security, and the Board would like to reiterate both its congratulations to Ian Francis and his team and its thanks for the hard work that has underpinned this recognition.

Outlook

Recently the financial markets have been disturbed by problems associated with debt in both the USA and some countries in Europe. Finding a solution to these problems is far from straightforward given the difficulties that politicians have experienced in agreeing sensible debt reduction packages. The markets have also been mindful of the GDP growth forecasts that have been lowered in many countries, concerned that this could lead to a double-dip recession.

All of that said, as I noted last year it is precisely during periods of uncertainty such as this that the greatest opportunities are to be found in the high yield markets. The Manager has demonstrated a reassuring sureness of touch over four difficult years, and with a widely diversified portfolio providing a balanced exposure at both the sector and currency levels, as well as a measure of protection against an inflationary threat that we continue to eye warily, I believe that we are well positioned to make further progress.

James G West

Chairman

23 September 2011



Investment Manager's Review

The Company's financial year has been dominated by the car crash that is the peripheral sovereign debt crisis in Europe. It was only in the first quarter, during a quiet period in the news flow from periphery, that we had a period of volatility in the Australian Dollar, with the initial weakness due to the telegraphed increased mining taxes being countered by the removal of Kevin Rudd as Prime Minister by Julia Gillard and the watering down of the tax regime. Also in the first quarter was the Australian General Election, which took 2½ weeks to form a coalition, all of which could not derail the ongoing strength of the currency due to the country's natural resources assets and the ongoing Chinese demand for them.

For the rest of the year all investors' eyes have been on Europe. At the start of the third quarter there was some degree of shortlived optimism that the various support features may work. One of the major stumbling blocks has been the lack of acceptance as to the level of cuts required; witness the ongoing protests in Athens. We also had the fall of the Irish Government at the end of January and the fall of the Portuguese Government towards the end of March. Subsequently the new Irish government put together a very tough budget, with public sector pay cut, pension cuts, welfare cuts, new housing taxes and water metering. Whilst these seemed drastic at the time, it will take several years to get from the budget deficit of 10.5% of GDP to a more sustainable level of less than half of the current figure. The new Portuguese regime was bailed out in May and again they must enact some drastic cuts to spending and increase taxes to get their deficit from 9.1% of GDP to 5.9% this year and 3% by 2013; a task that Portugal intends to be scrupulous in meeting to regain the confidence of cynical markets. Then we come to Greece; over the year we have seen civil unrest at the measures implemented by the Greek Government to unlock the funding from the EU/ECB/IMF. Coming to a head at the very end of the Company's financial year with the Government securing a 'no confidence' vote and winning by 155/138 vote in favour of further fiscal consolidation measures, which enables the release of funds pushing the 'disaster scenario' down the road for another six months when the next EU/ECB/IMF review will be no doubt looking at further measures to keep the programme on track.

In the UK, inflation continues to be a major worry with the Government's preferred CPI measure up from 3.2% to 4.5% over the year and RPI figure up from 4.8% to 5.2% over the same period. Most of the drivers for these figures have been external, such as higher commodity prices, but the increase in VAT at the end of January did nothing to help the cause. In another era, we would already be in a rising interest rate environment but our current view is we will not see a UK rate rise yet, given the weakness of the UK economy, shown by the failure of the UK retailers Focus, Habitat and T J Hughes and significant downsizing of Thornton and Carpetright and the electrical retailer Comet, put up for sale by its parent company, Kesa. Add this to the static property market outside London and below inflation wage settlements, and the outlook is not great, with increasing industrial unrest amongst public sector employees who are unhappy with poor wage settlements and the increase in pension contributions, coupled with the need to work longer to reach a raised retirement age. Bringing the public sector more into line with the private sector, and reducing the potentially massive pension deficit in the public sector will be an issue which could run on for some time.

So the economic background for the Company has been volatile to say the least.

To add further to the economic mayhem we had a very concentrated period of natural disasters in the quarter from January to March with the major floods in Queensland and Victoria in Australia, the Christchurch earthquakes in New Zealand and the earthquake and tsunami off the Japanese coast at Honshu. The associated nuclear disaster at Fukushima had far reaching consequences for the nuclear industry globally with many countries reviewing their programmes, with Germany pulling out of all nuclear power by 2022.

Nor have the man-made disasters been in short supply; away from the European debt crisis, we have had the Geo-political crisis in the Middle East and North Africa (MENA), starting with the Jasmin revolution in Tunisia back in January, giving inspiration to oppressed majorities in other MENA states to follow suit, leading to the removal of Egypt's long serving President Mubarak. Other protests have take place in Algeria, Yemen, Jordan, Bahrain, Iraq and Mauritania with reactions of the incumbent regimes varying in levels of response. The full scale revolution in Libya has been particularly complex, although at the time of writing the rebel forces appear to be winning the battle for control. Elsewhere Syria appears to be oppressing the majority but without foreign media reporting it is very difficult to gauge the true situation.

The major effect of these events was the strength of the oil price – up from \$94/bbl in January to \$120/bbl, a level which took until the middle of June and the release of strategic reserves to push the price back down to the \$94/bbl level. This should have a positive knock on effect to inflation in Western economies.

Investment Manager's Review (continued)

Investment Performance

The share price total return over the year for the Company was 20.6% with the NAV total return at 19.7%; the three year performance data shows a share price total return of 50.3% (annualised at 14.5%).

The prime objective of the Company remains the maintenance of a safe income stream plus the opportunity for capital growth.

During the first half of the year we raised £28.7 million in two tranches, which were invested into the markets, mostly in existing holdings with a few new names added.

Investment Activity

This year was spent keeping the balance of the portfolio, whilst adding new holdings in an effort to diversify the exposure. We continued to sell bonds which, through good performance, had moved to a level well above par and reinvest in bonds with a greater yield below par, hence preserving capital. One example of which was the sale of BAA 9.2% 2023 well above par, reinvesting into the shorter dated BAA 7 1/8 % 2017 below par. We also sold the Lloyds 16 1/8 CoCo 2024 well above par and reinvested into the Lloyds 12 3/4 CoCo 2020 with a much smaller premium to par.

We opened holdings in Bergen Group FRN 2013, which provides ship building and repair services to the offshore oil industry, also in Morpol FRN 2014, a global salmon processor, as part of the diversification process, plus as Floating Rate Notes affording some protection in a rising interest rate environment in economies further down the recovery road than the UK.

With an eye to the dangers of inflation and forthcoming redemptions/conversions of existing holdings, we added two iron ore companies: London Mining 8 1/4 Convertible 2016 by way of a new issue at the end of January and Dannemora 11 3/4 2016 Bond.

Towards the end of the year the Company sold the holding in Noreco 12.9% 2016 close to its all time high. Although it still had an excellent yield in Norwegian Krone, the resignation of the CEO and the need to refinance a non core asset, where the sale fell through, was a strong sell signal not to be ignored. The income was replaced by the inclusion in the portfolio of Consolidated Minerals 8 3/4% 2016 in US\$, a major manganese producer in Australia and Ghana. The holding of Santander 11.3% Perpetual was reduced with one eye on the Peripheral Sovereign debt crisis and reinvested into Investec 9 5/8% below par. Further diversification was achieved by the later purchase of Old Mutual 8% 2021 also in sterling, by way of the new issue market.

Outlook

Whilst the portfolio looks in good shape to provide secure income for shareholders, we continue to recognise the imperative of capital preservation and, wherever possible, increasing the capital value of the portfolio. We will look to switch out of investments which have a drain on capital to redemption, or call dates, and redirect the investment into similar yielding (on a running yield basis) stocks below par value.

The global economic background is still very uncertain yet the diversified nature of the portfolio should maintain a sensible balance of both currency and sector exposure.

Ian Francis

New City Investment Managers

23 September 2011



Investment Portfolio

As at 30 June 2011

Company	Sector	Valuation £'000	Net assets %
Balfour Beatty 10.75% Cum Pref	Construction	5,168	4.3
Antares Energy CV 10% 31/10/13	Oil & Gas	5,041	4.2
REA Finance 9.5% 31/12/17	Food Products	4,323	3.6
Santos Finance 8.25% 22/09/70	Oil & Gas	3,081	2.5
Skipton 10% 12/12/18	Financial	2,970	2.5
Brit Insurance 6.625% 9/12/30	Insurance	2,828	2.3
Cable & Wireless 8.625% 25/03/19	Telecom	2,819	2.3
Scottish Mutual 7.25% 25/03/21	Insurance	2,611	2.2
Tullet Prebon 7.04% 6/07/16	Financial	2,550	2.1
Beazley Group 7.25% 17/10/26	Real Estate	2,424	2.0
Top ten investments		33,815	28.0
Enterprise Inn 6.875% 15/02/21	Leisure	2,104	1.8
Katanga Mining 14% 30/11/13	Mining	1,965	1.6
Western Area CV 8% 02/07/12	Mining	1,878	1.6
Consol Minerals 8.875% 01/05/16	Mining	1,850	1.5
Aberdeen Asset Managers 7.9% 29/05/12	Financial	1,798	1.5
Europcar 9.375% 15/04/18	Automobiles	1,797	1.5
F&C Asset Management 6.75% 20/12/16	Financial	1,697	1.4
Ecc Inns 8.625% Pref	Insurance	1,643	1.4
Enterprise Inn 6.875% 09/05/25	Leisure	1,603	1.3
Dixons 8.75% 03/08/15	Electronic Equipment	1,597	1.3
Top twenty investments		51,747	42.9
Santander 11.3% 27/07/14	Banks	1,581	1.3
Southern Water Greensard 8.5% 15/04/19	Utilities	1,469	1.2
Raven Russia Pref	Real Estate	1,447	1.2
Det Norske Oljes FRN 28/01/16	Oil & Gas	1,412	1.2
DDI Holding 9.3% 19/01/12	Financial	1,403	1.2
Alliance Pharma 8% CV 31/12/13	Pharmaceuticals	1,370	1.2
Grohe Holdings 8.625% 01/10/14	Manufacturing	1,363	1.1
REA Holdings 9% Cum Pref	Food Products	1,359	1.1
F&C Finance 9% 20/12/16	Financial	1,349	1.1
RL Finance 6.125% 29/12/49	Mining	1,339	1.1
Top thirty investments		65,839	54.6
Skipton 6.75% 30/05/22	Financial	1,330	1.1
Healthscope 11.25% 17/06/16	Healthcare	1,319	1.1
Nat West 9% Non-Cum Pref	Banks	1,263	1.1
AXA 6.6862% Perpetual	Insurance	1,257	1.1
Neo Material 5% CV 31/12/17	Electronic Equipment	1,251	1.0
Dannemora 11.75% 2/03/16	Mining	1,248	1.0
Ocean Rig 9.5% 27/04/16	Oil & Gas	1,230	1.0
SAS AB 7.5% CV 01/04/15	Financial	1,222	1.0
HBOS 6.461% Perpetual	Banks	1,203	1.0
RBS 6.5% 17/02/17	Banks	1,195	1.0
Top forty investments		78,357	65.0

Investment Portfolio (continued)

As at 30 June 2011

Company	Sector	Valuation £'000	Net assets %
Investec 9.625% 17/02/22	Banks	1,191	1.0
Paragon 7% 20/04/17	Financial	1,181	1.0
Havila FRN 19/07/13	Transport	1,161	1.0
Old Mutual 8% 29/05/49	Financial	1,149	1.0
Bergen FRN 09/07/13	Transport	1,149	0.9
Cirsa Capital 8.75% 15/05/14	Leisure	1,146	0.9
Rothschild 9% Perp 15/2/14	Financial	1,131	0.9
Peel South 10% 30/04/26	Real Estate	1,097	0.9
Rubicon FRN 16/04/12	Oil & Gas	1,061	0.9
Santander 10.375% Preferred	Banks	1,050	0.9
Top fifty investments		89,673	74.4
British Airways 7.25% 23/08/16	Airlines	1,033	0.9
Old Mutual 8% 03/06/21	Financial	1,011	0.9
Cable & Wireless 5.75% CV 24/11/14	Telecoms	1,004	0.8
Morpol ASA FRN 03/02/14	Food Products	1,002	0.8
Metals Exploration 9% CV 01/08/11 (unquoted*)	Mining	1,000	0.8
Providence Resources CV 12% 29/07/12	Oil & Gas	998	0.8
Warner Music 8.125% 15/04/14	Media	995	0.8
BAA 7.125% 01/03/17	Transport	983	0.8
National Westminster Preferred	Banks	956	0.8
AXA SA FRN 26/01/16	Financial	927	0.8
Top sixty investments		99,582	82.6
DDI Holdings 10% 15/03/12	Financial	910	0.8
CGIS 9.625% 31/12/19	Real Estate	907	0.8
Iron Mountain 7.25% 15/04/14	Commercial Services	896	0.8
Royal & Sun Alliance 8.5% 29/07/49	Insurance	895	0.7
First Australia 15% CV 31/01/12	Oil & Gas	889	0.7
CA Preferred Fund Trust 7% Perpetual	Financial	868	0.7
LBG Capital 12.75% 10/02/20	Financial	868	0.7
Enterprise Inns 6.5% 2018	Leisure	856	0.7
Clerical Medical 7.375% Perpetual	Financial	840	0.7
British Airways 6.75% Cum Pref	Airlines	767	0.6
Top seventy investments		108,278	89.8
Other investments (61)		22,495	18.6
Total investments		130,773	108.4
Net current liabilities[†]		(10,160)	(8.4)
Net assets		120,613	100.0

Notes:

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

[†] Including bank loan facility of £12.9 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 2011

By Currency

	2011 Total investments %	2010 Total investments %
Sterling	57	61
Euro	10	9
Australian dollar	12	9
US dollar	13	12
Canadian dollar	3	5
Norwegian krone	5	4
Total investments	100	100

By Asset Class

	2011 Total investments %	2010 Total investments %
Bonds	69	69
Convertibles	18	21
Preference shares	10	8
Equity shares	3	2
Total investments	100	100

By Quotation

	2011 Total investments %	2010 Total investments %
Listed/Quoted on a recognised investment exchange	96	91
Unquoted (convertible into a security quoted on a recognised exchange)	3	7
Unquoted	1	2
Total investments	100	100

Directors' Report (including Business Review)

Results and Dividends

The Directors present their fourth Report and Accounts of the Company for the year ended 30 June 2011.

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

Dividends	£'000
Current year net revenue available for dividends	8,704
Dividends on ordinary shares	
First interim dividend of 0.85p per share paid on 26 November 2010	(1,433)
Second interim dividend of 0.85p per share paid on 25 February 2011	(1,729)
Third interim dividend of 0.85p per share paid on 27 May 2011	(1,729)
Fourth interim dividend of 1.32p per share paid on 26 August 2011	(2,685)
	<u>1,128</u>

The fourth interim dividend of 1.32p 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. They are also listed and trade on the Channel Islands Stock Exchange.

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 2011 and covers:

- Investment objective
- Investment policy and limits
- Investment approach
- 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, size or sectors, therefore the Company may invest in companies regardless of country, size or sector and, accordingly, the Company's portfolio is constructed without reference to the composition of any 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 listed or traded if the Investment Manager considers this appropriate. The Board has established a maximum investment limit in this regard of 10 per cent (calculated at the time of any relevant investment) of the Company's total assets. In addition, the Company may invest up to 10 per cent (calculated at the time of any relevant investment) of its total assets in other securities that are neither listed or traded at the time of investment.
- The Company will not invest more than 10 per cent (calculated at the time of any relevant investment) of its total assets in other collective investment undertakings (open-ended or closed-end).
- The Board has established a maximum investment limit whereby, at the time of investment, the Company may not invest more than 5 per cent of its total investments in the same investee company.
- The Company uses gearing and the Board has set a current limit that gearing will not exceed 25 per cent of shareholders' funds at the time of borrowing. This limit is reviewed from time to time by the Board.

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

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 ended 30 June 2011 and has declared a further dividend of 1.32p per share which was paid after the year end, on 26 August 2011. Based on an annual rate of 3.87p per share and a share price of 63.75p at the year end, this represents a yield of 6.1 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 ("NCIM") with Ian Francis as the lead fund manager.

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

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.

The Company has served notice on F&C Investment Business Limited terminating its appointment as the Company's UK administrator with effect from 21 November 2011. The Company intends to appoint R&H Fund Services (UK) Limited as its administrator with effect from 21 November 2011.

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

Directors' Report (including Business Review) (continued)

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 17 to 22 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.
- 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 objectives 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 NCIM from 1 November 2004 when it was initially appointed Investment 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 £20 million was in place with HSBC Bank plc and the Company had drawn down £12.9 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, offer themselves for re-election.



Directors' Report (including Business Review) (continued)

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

The Board confirms, following forum based performance evaluations, that 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.

The Directors who held office during the year and their interests in the shares of the Company as at 30 June 2011 were:

	Ordinary Shares 2011	Ordinary Shares 2010
J G West (Chairman)	5,000	5,000
G D P Breeze	5,013,254	1,406,425
A F Carey	–	–
A J R Collins	40,000	40,000
G D Ross	20,000	10,000

There have been no changes in the holdings of the Directors between 30 June 2011 and 23 September 2011.

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

Manager's Interest

The interest of the lead fund manager at NCIM in the shares of the Company as at 30 June 2011 was:

	Ordinary Shares 2011	Ordinary Shares 2010
I Francis	73,053	73,053

Substantial Interests in Share Capital

At 23 September 2011 the only persons known to the Company who, directly or indirectly, held voting rights under the FSA's Disclosure and Transparency Rules were as follows:

	Number of Ordinary Shares Held	Percentage Held
Brewin Dolphin Limited	37,871,298	18.6%
Newton Investment Management	15,300,064	7.5%
James Sharp Stockbrokers	10,720,387	5.3%
Rathbones	8,810,352	4.3%
Charles Stanley Stockbrokers	8,754,838	4.3%
Deutsche Bank Private Wealth Management	7,931,859	4.3%

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

Issue of New Ordinary Shares

The Company issued a further 15,330,302 ordinary shares on 13 September 2010, under its block listing facility and 34,770,919 ordinary shares on 23 November 2010 pursuant to a placing and public offer for subscription. Following these issues of shares there are now 203,404,249 ordinary shares in issue as at 23 September 2011.

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 ("NCIM") with Ian Francis as the lead fund manager. 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 October 2010 by reference to the AIC Corporate Governance Guide for Investment Companies (the 'AIC Guide'). The AIC Code, as explained by the AIC Guide, addresses the main principles set out in the UK Corporate Governance Code issued by the Financial Reporting Council in June 2010, 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

Directors' Report (including Business Review) (continued)

the UK Corporate Governance Code), will provide better information to shareholders than if it had adopted the UK Corporate Governance 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 UK Corporate Governance Code. Since all Directors are non-executive, and in accordance with the AIC Code and the preamble to the UK Corporate Governance Code, the provisions of the UK Corporate Governance 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 the AIC Code and the UK Corporate Governance Code. However, the Board has agreed that each Director will retire and, if appropriate, seek re-election after each three years' service, and annually after serving on the Board for more than nine years. For the purposes of assessing compliance with the UK Corporate Governance Code, the Board considers all of the Directors as independent of the Investment Manager and free from any business or other relationship that could materially interfere with the exercise of their independent judgement. However, as both Mr A 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 basis on which the Company agrees to generate value over the longer term is set out in its objective and investment policy as contained within the Business Review.

The Company has no executive Directors or employees. A management agreement between the

Company and its Investment Manager, 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 Mr G D P Breeze, Mr A F Carey and Mr A J R Collins. 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.



Directors' Report (including Business Review) (continued)

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 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 40 relating to the Directors seeking re-election.

The following table sets out the number of Board and Committee meetings held during the year ended 30 June 2011 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	5	5	2	–	1	1	1	1
G D P Breeze	5	4	2	2	1	1	1	1
A F Carey	5	5	2	2	1	1	1	1
A J R Collins	5	4	2	2	1	1	1	1
G D Ross	5	5	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,

Directors' Report (including Business Review) (continued)

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 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 August 2011 Board meeting the Board carried out an annual assessment of internal controls for the year ended 30 June 2011 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 2011.

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 UK Corporate Governance 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 ("Articles") 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 the Directors are required to obtain a disapplication of their pre-emption rights from shareholders before issuing new shares on a non pre-emptive basis. In order to continue with its programme of new share issues, your Board is therefore also proposing that an annual disapplication of pre-emption rights is given to the Directors so that they may continue to issue shares as and when appropriate. Accordingly, resolution 9 proposes a disapplication of the new pre-emption rights in respect of 10% of the ordinary shares in issue, set to expire on the earlier of eighteen months from the date of the resolution or at the conclusion of the Annual General Meeting to be held in 2012. It is proposed that this disapplication will be proposed for renewal annually.

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

Directors' Authority to Buy Back Shares

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

The current authority of the Company to make purchases of up to approximately 14.99 per cent of its issued capital expires at the end of the Annual General Meeting and Resolution 8 seeks renewal of such authority until the next Annual General Meeting (or the expiry of fifteen months from the date of the passing of the resolution, if earlier). The maximum and minimum prices to be paid for shares are set out in Resolution 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.

Auditor

KPMG Audit Plc have expressed their willingness to continue in office as auditor 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

23 September 2011

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 UK Corporate Governance Code. The Company Secretary provides information on comparative levels of Directors' fees to the Board in advance of each review.

Policy on Directors' Fees

The Company's Articles of Association limit the aggregate fees payable to the Board of Directors to a total of £150,000 per annum. Subject to this overall limit, it is the Company's policy that the remuneration of non-executive Directors should reflect the experience of the Board as a whole, be fair and comparable to that of other relevant investment companies that are similar in size and have similar investment objectives and structures. Furthermore, the level of remuneration should be sufficient to attract and retain the Directors needed to oversee properly the Company and to reflect the specific circumstances of the Company, the duties and responsibilities of the Directors and the value and amount of time committed to the Company's affairs. It is intended that this policy will continue for the year ending 30 June 2012 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 23 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.

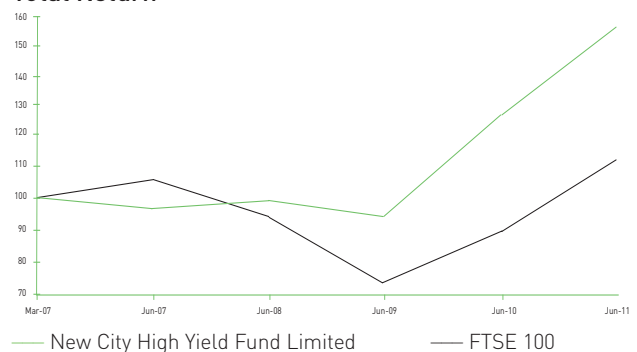
The terms of Directors' appointments provide that Directors should retire and be subject to re-election at the first Annual General Meeting after their appointment. Directors are obliged to retire by rotation, and may offer themselves for re-election by shareholders at least every three years after that. 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 2011. 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 (audited)

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

	Fees 2011 £'000	Fees 2010 £'000
J G West (Chairman)	28,687	24,750
G D P Breeze (Audit Committee Chairman)	21,500	18,500
A F Carey	19,125	16,500
A J R Collins	19,125	16,500
G D Ross†	12,500	11,000
	100,937	87,250

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

The level of Directors' fees was increased in 2010 following three years without change. The Board concluded following a review of the level of Directors' fees that they should remain unchanged from those introduced on 1 October 2010. Therefore, the annual rates of remuneration are £30,000 for the Chairman, £22,500 for the Chairman of the Audit Committee, £13,000 for G D Ross and £20,000 for each other Director.

On behalf of the Board

J G West

Director

23 September 2011

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 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

23 September 2011

Independent Auditor's 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 2011 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Change in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards.

This report is made solely to the company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report 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 auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 20, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards; and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

- adequate accounting records have not been kept by the company; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit;

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 16, in relation to going concern;
- the part of the Corporate Governance Statement on pages 14 to 15 relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Gareth Horner (Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants and Recognised Auditor

23 September 2011

Notes:

- The maintenance and integrity of the www.ncim.co.uk website is the responsibility of the directors; the work carried out by auditors does not involve consideration of these matters and accordingly, KPMG Audit Plc accepts no responsibility for any changes that may have occurred to the financial statements or our audit report since [date of audit report]. KPMG Audit Plc has carried out no procedures of any nature subsequent to [date of audit report] which in any way extends this date.
- Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. The directors shall remain responsible for establishing and controlling the process for doing so, and for ensuring that the financial statements are complete and unaltered in any way.



Income Statement

For the year ended 30 June 2011

	Notes	Year ended 30 June 2011			Year ended 30 June 2010		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Capital gains on investments							
Gains on investments	9	-	9,612	9,612	-	15,234	15,234
Liquidation distribution	24	-	259	259	-	-	-
Exchange (losses)/gains		-	(303)	(303)	-	55	55
Revenue							
Income	2	10,030	-	10,030	7,754	-	7,754
		10,030	9,568	19,598	7,754	15,289	23,043
Expenses							
Investment management fee	3	(702)	(234)	(936)	(528)	(176)	(704)
Other expenses	4	(415)	-	(415)	(367)	-	(367)
Total expenses		(1,117)	(234)	(1,351)	(895)	(176)	(1,071)
Profit before finance costs and taxation		8,913	9,334	18,247	6,859	15,113	21,972
Finance costs							
Interest payable and similar charges	5	(140)	(46)	(186)	(117)	(39)	(156)
Profit before taxation		8,773	9,288	18,061	6,742	15,074	21,816
Irrecoverable withholding tax	6	(69)	-	(69)	(62)	-	(62)
Profit after taxation		8,704	9,288	17,992	6,680	15,074	21,754
Earnings per ordinary share (pence)	8	4.67p	4.98p	9.65p	4.36p	9.83p	14.19p

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

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

No operations were acquired or discontinued in the year.

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

Balance Sheet

As at 30 June 2011

	Notes	As at 30 June 2011 £'000	As at 30 June 2010 £'000
Non-current assets			
Investments held at fair value	9	130,773	88,933
Current assets			
Other receivables	10	3,982	2,581
Cash and cash equivalents		15	53
		3,997	2,634
Total assets		134,770	91,567
Current liabilities			
Bank loan facility	11	(12,927)	(10,166)
Other payables	12	(1,230)	(161)
Total liabilities		(14,157)	(10,327)
Net assets		120,613	81,240
Stated capital and reserves			
Stated capital account	13	57,567	29,455
Special distributable reserve		50,385	50,385
Capital reserve		5,469	(3,819)
Revenue reserve		7,192	5,219
Equity shareholders' funds		120,613	81,240
Net asset value per ordinary share (pence)	15	59.30p	52.99p

The financial statements on pages 22 to 38 were approved by the Board of Directors and authorised for issue on 23 September 2011 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 2011

	Notes	Stated capital account* £'000	Special distributable reserve† £'000	Capital reserve* £'000	Revenue reserve† £'000	Total £000
At 1 July 2010		29,455	50,385	(3,819)	5,219	81,240
Total comprehensive income for the year:						
Profit for the year		–	–	9,288	8,704	17,992
Transactions with owners recognised directly in equity:						
Dividends paid	7	–	–	–	(6,731)	(6,731)
Issue of shares	13	28,112	–	–	–	28,112
At 30 June 2011		57,567	50,385	5,469	7,192	120,613

For the year ended 30 June 2010

	Notes	Stated capital account* £'000	Special distributable reserve† £'000	Capital reserve* £'000	Revenue reserve† £'000	Total £000
At 1 July 2009		29,455	50,385	(18,893)	4,134	65,081
Total comprehensive income for the year:						
Profit for the year		–	–	15,074	6,680	21,754
Transactions with owners recognised directly in equity:						
Dividends paid	7	–	–	–	(5,595)	(5,595)
At 30 June 2010		29,455	50,385	(3,819)	5,219	81,240

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

† The balance on the revenue reserve of £7,192,000 (2010: £5,219,000) is available for paying dividends.

‡ The balance on the special distributable reserve of £50,385,000 (2010:£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.

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

Cash Flow Statement

For the year ended 30 June 2011

Notes	Year ended 30 June 2011 £'000	Year ended 30 June 2010 £'000
Operating activities		
Profit before finance costs and taxation	18,247	21,972
Gains on investments	(9,612)	(15,234)
Exchange losses/(gains)	303	(55)
Increase in other receivables	(739)	(590)
Decrease in other payables	(3)	(20)
Net cash inflow from operating activities before interest and taxation	8,196	6,073
Interest paid	(172)	(248)
Irrecoverable withholding tax paid	(69)	(62)
Net cash inflow from operating activities	7,955	5,763
Investing activities		
Purchases of investments	(67,245)	(48,796)
Sales of investments	35,413	36,955
Net cash outflow from investing activities	(31,832)	(11,841)
Financing		
Equity dividends paid	(6,731)	(5,595)
Drawdown of bank loan facility	2,761	2,166
Issue of ordinary shares	28,112	299
Net cash inflow/(outflow) from financing	24,142	(3,130)
Increase/(decrease) in cash and cash equivalents	265	(9,208)
Cash and cash equivalents at the start of the year	(10,113)	1,206
Drawdown of bank loan facility	(2,761)	(2,166)
Exchange (losses)/gains	(303)	55
Cash and cash equivalents at the end of the year†	(12,912)	(10,113)
Dividend income received	992	658
Interest on fixed interest securities received	8,392	6,629

† Cash and cash equivalent includes cash held at bank and bank loan facility.



Notes to the Financial Statements

1. Accounting policies

(a) Basis of accounting

These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the International Accounting Standards Board ('IASB') and in accordance with the guidance set out in the Statement of Recommended Practice ('SORP') for investment trust companies and venture capital trusts issued by the Association of Investment Companies ('AIC') in January 2009.

Notwithstanding that New City High Yield Fund Limited is not an investment trust company, given the purpose of the Company and certain similar characteristics, the Company has chosen to follow the guidance set out in the SORP where it is consistent with the requirements of IFRS.

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

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

Standards and amendments not yet effective

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

- In November 2009, the IASB issued IFRS 9 'Financial Instruments' which becomes effective for accounting periods commencing on or after 1 January 2013. This represents the first of a three part project to replace IAS 39 '*Financial Instruments; Recognition and Measurement*'. The objective of the standard is to enhance the ability of investors and other users of financial information to understand the accounting of financial assets and to reduce complexity.
- In May 2010, the IASB issued improvements to IFRS for 2010 which will become effective for periods commencing on or after 1 January 2011. These cover eleven amendments to six standards, none of which are expected to materially affect the Company.

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

Critical accounting estimates and judgements

The preparation of the financial statements necessarily requires the exercise of judgement both in application of accounting policies which are set out below and in the selection of assumptions used in the calculation of estimates. These estimates and judgements are reviewed on an ongoing basis and are continually evaluated based on historical experience and other factors. However, actual results may differ from these estimates. The most significant judgements are the valuation of unlisted investments which is described in note 1(b) below and the adoption of the going concern basis of preparation which is discussed on page 16 of the Directors' Report.

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

(b) Investments

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

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

Notes to the Financial Statements (continued)

1. Accounting policies (continued)

(c) Income

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

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

Income from deposit interest is recognised on an accruals basis.

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

(d) Expenses, including finance charges

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

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

(e) Foreign currencies

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

(f) Cash and cash equivalents

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

(g) Bank borrowings

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

(h) Reserves

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

(i) Segmental information

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

Rates of exchange at 30 June

	2011	2010
Euro	1.1073	1.2214
Australian dollar	1.4996	1.7713
US dollar	1.6055	1.4961
Canadian dollar	1.5494	1.5898
Norwegian krone	8.6140	9.7294

2. Income

	2011 £'000	2010 £'000
Income from investments*		
Dividend income	1,019	648
Interest on fixed interest securities	9,008	7,106
	10,027	7,754
Other income†		
Deposit interest	3	-
Total income	10,030	7,754
Income from investments		
Listed	9,622	6,931
Unlisted	405	823
	10,027	7,754

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

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

3. Investment management fee

	2011 Revenue £'000	2011 Capital £'000	2011 Total £'000	2010 Revenue £'000	2010 Capital £'000	2010 Total £'000
Investment management fee	702	234	936	528	176	704

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 £90,000 (2010: £62,000).

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

Notes to the Financial Statements (continued)

4. Other expenses

	2011 Revenue £'000	2011 Capital £'000	2011 Total £'000	2010 Revenue £'000	2010 Capital £'000	2010 Total £'000
Secretarial and administration fees	122	–	122	108	–	108
Directors' fees	101	–	101	87	–	87
Auditors' remuneration for:						
– audit services	24	–	24	23	–	23
Share Plan expenses	20	–	20	10	–	10
Consultancy	25	–	25	25	–	25
Printing	23	–	23	15	–	15
Bank and custody charges	26	–	26	20	–	20
Registrars' fees	15	–	15	23	–	23
Other	59	–	59	56	–	56
	415	–	415	367	–	367

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 £30,000 (2010: £26,000) 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 £75,000 per annum. The Administration Agreement may be terminated by either party giving to the other not less than 12 months' notice. The Company has served notice on F&C Investment Business Limited terminating its appointment as the Company's UK administrator with effect from 21 November 2011. The Company intends to appoint R&H Fund Services (UK) Limited as its administrator with effect from 21 November 2011.

The total fees paid under these agreements were £16,500 (2010: £15,000) to R&H (excluding the Director's fee to Graeme Ross), £15,000 (2010: £23,000) to Computershare and £104,000 (2010: £82,000) to F&C. There was no fee due to F&C at the year end.

The remuneration of the Chairman, the highest paid Director, was at a rate of £30,000 per annum. Further details are provided in the Directors' Remuneration Report on pages 19 and 20.

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

The Company does not have any employees.

The Company paid £10,000 of non-audit fees in relation to expenses of the share issue. This amount has been deducted from equity as noted in note 13.

5. Interest payable and similar charges

	2011 Revenue £'000	2011 Capital £'000	2011 Total £'000	2010 Revenue £'000	2010 Capital £'000	2010 Total £'000
Bank loan	140	46	186	117	39	156

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.



Notes to the Financial Statements (continued)

6. Taxation

The taxation charge for the year is comprised of:

	2011 Revenue £'000	2011 Capital £'000	2011 Total £'000	2010 Revenue £'000	2010 Capital £'000	2010 Total £'000
Irrecoverable withholding tax suffered	69	–	69	62	–	62

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 (2010: 0%) as follows:

	2011 £'000	2010 £'000
Profit/(loss) on ordinary activities before taxation	18,145	21,816
Theoretical tax expense at zero per cent (2009: 0%)	–	–
Effects of:		
Foreign withholding tax	69	62
Current year revenue tax charge	69	62

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

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

7. Dividends

	Payment date	2011 Revenue £'000	2010 Revenue £'000
Amounts recognised as distributions to equity holders in the year:			
Dividends in respect of the year ended 30 June 2009			
– Fourth interim of 1.20p per ordinary share	27 Aug 2010	1,840	1,686
Dividends in respect of the year ended 30 June 2011			
– First interim of 0.85p (2010: 0.85p) per ordinary share	26 Nov 2010	1,433	1,303
– Second interim of 0.85p (2010: 0.85p) per ordinary share	25 Feb 2011	1,729	1,303
– Third interim of 0.85p (2010: 0.85p) per ordinary share	27 May 2011	1,729	1,303
		6,731	5,595
Distributions to equity holders after the year end:			
Dividends in respect of the year ended 30 June 2011			
– Fourth interim of 1.32p per ordinary share	26 Aug 2011	2,685	–
Dividends in respect of the year ended 30 June 2010			
– Fourth interim of 1.20p per ordinary share		–	1,840

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

8. Earnings per ordinary share

	2011 Revenue pence	2011 Capital pence	2011 Total pence	2010 Revenue pence	2010 Capital pence	2010 Total pence
Ordinary share	4.67p	4.98p	9.65p	4.36p	9.83p	14.19p

The revenue earnings per ordinary share is based on the net profit after taxation of £8,704,000 (2010: £6,680,000) and on 186,387,820 (2010: 153,303,028) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

The capital profit per ordinary share is based on a net capital profit of £9,288,000 (2010: £15,074,000) and on 186,387,820 (2010: 153,303,028) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

Notes to the Financial Statements (continued)

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.

	2011 £'000	2010 £'000
Investments listed/quoted on a recognised investment exchange	125,119	81,150
Unquoted investments	5,654	7,783
	130,773	88,933
Equity shares	3,300	1,475
Preference shares	13,268	6,752
Fixed income securities	91,623	62,348
Convertible securities	22,582	18,358
	130,773	88,933

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

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

	Level 1 Listed in UK £'000	Level 1 Listed overseas £'000	2011 Level 3 £'000	2011 Total £'000	2010 Total £'000
Opening book cost	48,627	33,574	12,741	94,942	79,960
Opening unrealised appreciation/(depreciation)	1,299	(2,350)	(4,958)	(6,009)	(17,799)
Opening valuation	49,926	31,224	7,783	88,933	62,161
Movements in the year:					
Purchases at cost	38,326	29,186	791	68,303	48,493
Sales – proceeds	(16,391)	(17,759)	(1,925)	(36,075)	(36,955)
– realised gains on sales	2,813	2,270	77	5,160	3,444
Transfers	–	1,253	(1,253)	–	–
(Increase)/decrease in unrealised depreciation	(4,667)	8,938	181	4,452	11,790
Closing valuation	70,007	55,112	5,654	130,773	88,933
Closing book cost	73,375	48,524	10,431	132,330	94,942
Closing unrealised (depreciation)/appreciation	(3,368)	6,588	(4,777)	(1,557)	(6,009)
Closing valuation	70,007	55,112	5,654	130,773	88,933

Transfers from level 3 to level 1 occurred due to the listing of companies during the year.

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

During the year the Company incurred brokerage costs of £14,985 (2010 – £1,001) on the purchase of investments and £7,059 (2010 – £171) on the sale of investments.

	2011 £'000	2010 £'000
Gains on investments		
Realised gains	5,160	3,444
Decrease in unrealised depreciation	4,452	11,790
Gains on investments	9,612	15,234

Notes to the Financial Statements (continued)

10. Other receivables

	2011 €'000	2010 €'000
Income receivable from shares and securities	3,305	2,565
Amounts due from brokers	662	-
Prepayments	15	16
	3,982	2,581

11. Bank loan facility

	2011 €'000	2010 €'000
Bank loan facility	12,927	10,166

On 9 October 2009 the unsecured bank loan facility with the Allied Irish Bank was fully repaid. On this date a short form overdraft facility was agreed with HSBC Bank Plc. This facility allows up to 20 per cent of the value of shareholders' funds to be borrowed with the drawn down amount repayable on demand. As at the year end the unsecured loan facility had a limit of €20.0 million of which €12.9 million was drawn down at the year end.

12. Other payables

	2011 €'000	2010 €'000
Interest on bank loan	30	16
Amount due to brokers	1,058	-
Other creditors	142	145
	1,230	161

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	2011 €'000
Total issued share capital at 1 July 2010	153,303,028	29,455
15,330,302 ordinary shares of no par value issued on 13 September 2010	15,330,302	8,636
34,770,919 ordinary shares of no par value issued on 23 November 2010	34,770,919	20,062
Expenses of share issues	-	(586)
Total issued share capital at 30 June 2011	203,404,249	57,567

On 13 September 2010 the Company allotted 15,330,302 ordinary shares of no par value, under its block listing facility, for cash at 56.33p per share.

On 23 November 2010, the Company issued 34,770,919 ordinary shares of no par value pursuant to a placing and public offer for subscription, for cash at 57.7p per share.

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	
	2011 pence	2010 pence	2011 £'000	2010 £'000
Ordinary shares	59.30p	52.99p	120,697	81,240

The basic net asset value per ordinary share is based on net assets of £120,613,000 (2010: £81,240,000) and on 203,404,249 (2010: 153,303,028) ordinary shares, being the number of ordinary shares in issue at the year end.

16. Analysis of changes in net debt

	At 30 June 2010 £'000	Cash Flow £'000	Currency Movements £'000	At 30 June 2011 £'000
Cash at bank and in hand	53	265	(303)	15
Bank facility	(10,166)	(2,761)	-	(12,927)
	(10.113)	(2,496)	(303)	(12,912)

17. Financial instruments

The Company's financial instruments comprise its investment portfolio, cash balances, bank loan and debtors and creditors that arise directly from its operations. As an investment company the Company holds a portfolio of financial assets in pursuit of its investment objective. The Company uses flexible 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)

17. 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 bank may demand repayment of the overdraft and or that the Company may not be able to liquidate quickly its investments.

The Company held the following categories of financial instruments as at 30 June 2010 all of which are held at fair value, other than the bank loan which is held at amortised cost:

	2011 £'000	2010 £'000
Financial instruments		
Investment portfolio	130,773	88,933
Cash and cash equivalents	15	53
Accrued income	3,305	2,565
Amounts due from brokers	662	-
Financial liabilities		
Bank loan	12,927	10,166
Amounts due to brokers	1,058	-
Interest on bank loan facility	30	16
Other payables	142	145

18. Market price risk

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

Investment and portfolio performance are discussed in the Investment Manager's Review and further information on the investment portfolio is set out on pages 8 to 10.

If the investment portfolio valuation fell 5 per cent at 30 June 2011, the impact on the profit or loss and the net asset value would have been negative £6.5 million (2010: a fall of 5 per cent would have impacted the profit or loss and the net asset value by negative £4.4 million). Due to the effect of gearing, the impact on the net asset value per share would have been a decrease of 5.4 per cent (2010: decrease 5.4 per cent). If the investment portfolio valuation rose by the same amount, the effect would have been equal and opposite. The calculations are based on the portfolio valuation at the balance sheet date and is not representative of the period as a whole, and may not be reflective of future market conditions.

Notes to the Financial Statements (continued)

19. Interest rate risk

Financial assets

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

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

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

Floating rate

When the Company retains cash balances they are held in floating rate deposit accounts. The benchmark rate which determines the interest payments received on interest bearing cash balances is the UK bank base rate, which was 0.5 per cent at 30 June 2011.

Financial liabilities

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

If the bank base rate had increased by 0.5 per cent, the impact on the profit or loss would have been a loss of £65,000 (2010: £51,000). If the bank base rate had decreased by 0.5 per cent, the impact on the profit or loss would have been equal and opposite. The calculations are based on borrowings as at the respective balance sheet dates and are not representative of the year as a whole.

At the year end, the Company had borrowings of £12,927,000 from HSBC Bank plc, details of which are contained in note 11 on page 32.

Fixed rate

The Company holds fixed interest investments.

	2011 £'000	2011 Weighted average interest rate (%)	2011 Weighted average period for which the rate is fixed (years)	2010 £'000	2010 Weighted average interest rate (%)	2010 Weighted average period for which the rate is fixed (years)
Assets:						
Fixed income & convertible securities	114,205	8.47	10.7	80,706	8.77	8.1
Preference shares	13,268	8.27	n/a	6,752	8.25	n/a



Notes to the Financial Statements (continued)

20. Foreign currency risk

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

Foreign currency exposure at 30 June 2011 was as follows:

	2011 Investments £'000	2011 Accrued Income £'000	2011 Total £'000	2010 Investments £'000	2010 Accrued Income £'000	2010 Total £'000
Euro	11,918	457	12,375	7,241	338	7,579
Australian dollar	15,526	161	15,687	8,201	196	8,397
US dollar	17,632	318	17,950	10,179	133	10,312
Norwegian krone	6,699	148	6,847	3,846	178	4,024
Canadian dollar	3,511	152	3,663	4,167	148	4,315
Swedish krona	1,222	26	1,248	508	11	519
Swiss franc	215	2	217	167	1	168
	56,723	1,264	57,987	34,309	1,005	35,314

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 £2.9 million (2010: positive £1.8 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 (2010: increase of 2.2 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.

21. Credit risk

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

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

	2011 £'000	2010 £'000
Cash and cash equivalents	15	53
Interest, dividends and other receivables	3,305	2,565
Balances due from brokers	662	-
	3,982	2,618

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.

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

There were no significant concentrations of credit risk to counterparties at 30 June 2011. No individual investment exceeded 4.3 per cent of the net assets attributable to the Company's shareholders at 30 June 2011.

Notes to the Financial Statements (continued)

22. Liquidity risk

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

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

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

	2011 Total investments £'000	2010 Total investments £'000
Listed/Quoted on a recognised investment exchange	125,119	81,150
Unquoted (convertible into a security quoted on a recognised exchange)	4,302	6,375
Unquoted	1,352	1,408
Total investments	130,773	88,933

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

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

23. Related parties

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

Mr G Breeze is a director of the Company and on 23 November 2010 purchased 3,466,204 shares of the Company at a price of 57.70 pence per share pursuant to the placing and public offer for subscription.

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.

Canaccord Genuity Limited provides advisory and brokerage services to the Company. Mr J West is Chairman of Canaccord Genuity Limited.

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

There are no other transactions with the Board other than aggregated remuneration for services as Directors as disclosed in the Directors' Remuneration Report on pages 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.

24. 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

Notes to the Financial Statements (continued)

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 Company received £259,000 as a liquidation distribution in respect of VAT recovered during the year ended 30 June 2011.

The Company expects to recover a further amount but 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.

Shareholder Information

Retail Plan Savers

The shares of New City High Yield Fund Limited are listed on the Official List and traded on the London Stock Exchange and on the Channel Islands Stock Exchange and private investors can buy and sell shares by placing an order either directly with a stockbroker or through an Independent Financial Adviser. Alternatively, investments can be made through the New City Investment Managers Individual Savings Account ('ISA') or Investment Plan. Details of these can be obtained from Halifax Share Dealing Limited ('HSDL') on 0845 850 0181.

The Board believes investment costs for shareholders should be kept as low as possible. No charges are therefore made by the Company to shareholders using the retail plans.

The Investment Plan

The Investment Plan accepts lump sums or regular monthly payments for investment in the Company's shares. The Plan will accept lump sum investments with a minimum of £1,000 or regular investments with a minimum of £100 a month. There is no maximum investment. You can elect to have dividends reinvested into your plan to buy further shares or paid into your nominated bank account.

The ISA

The ISA is a way of investing money without having to pay income or Capital Gains Tax on any profits made or dividend income received. Up to £10,680 may be invested in an ISA for the 2011/2012 tax year. You may invest either a lump sum or regular monthly savings, subject to the following amounts. The ISA will accept lump sum investments with a minimum of £1,000 or regular investments with a minimum of £100 a month. You can invest additional lump sums of £500 or more and can increase your monthly savings at any time. You can elect to have dividends reinvested into your ISA to buy further shares or paid into your nominated bank account.

Investments may only be made in cash unless you are transferring qualifying investments held in an ISA from another ISA manager. Shares are acquired for ISAs either in the stockmarket or, where appropriate, through the issuing of new shares by the Companies at no less than 101% of the net asset value ('NAV'), whichever method would be cheaper to the investor.

Transfer of other ISAs into the New City Investment Managers ISA

Transfers may be made into the ISA of ISAs currently managed by other managers. Details are available from HSDL.

Disposal of Shareholdings

Holders of shares within the Investment Plan or ISA may sell their shares at any time without incurring any stockbroking costs. Details are available from HSDL.

Net Asset Value/Share Price

The net asset value of the Company's ordinary shares may be obtained by contacting CQS on 0207 201 5369 or by email at toni.wall@cqsm.com or alternatively by visiting the Company's web site at www.ncim.co.uk.

Notice of Annual General Meeting

Notice is hereby given that the fifth Annual General Meeting of New City High Yield Fund Limited will be held at 11.00 a.m. at Ordnance House, 31 Pier Road, St. Helier, Jersey, JE4 8PW on Tuesday 13 December 2011 for the following purposes:

To consider and, if thought fit, pass resolutions 1 to 7 as ordinary resolutions and resolutions 8 to 9 as special resolutions:

Ordinary Business

1. To receive the Report of the Directors and the financial statements of the Company for the year ended 30 June 2011, together with the auditor's report thereon.
2. To approve the Directors' Remuneration Report.
3. That Gavin D P Breeze, who retires by rotation at the Annual General Meeting, be re-elected as a Director.
4. That Adrian J R Collins, who retires at the Annual General Meeting, be re-elected as a Director.
5. That Graeme D Ross, who retires at the Annual General Meeting, be re-elected as a Director.
6. That KPMG Audit Plc, Chartered Accountants, be re-appointed as Auditor and that the Directors be authorised to determine their remuneration.

Special Business

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

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 30,490,296 being 14.99 per cent of the issued share capital of the Company;
 - (ii) the minimum price which may be paid for an ordinary share is 1p;
 - (iii) the maximum price which may be paid for an ordinary share is an amount equal to the higher of:
 - (a) 105 per cent of the average of the middle market quotations for an ordinary share as derived from the Daily Official List of the London Stock Exchange for the five business days immediately preceding the day on which the ordinary share is purchased; and
 - (b) the higher of (1) the price of the last independent trade in ordinary shares and (2) the highest current independent bid for ordinary shares on the London Stock Exchange's Main Market;
 - (iv) any ordinary shares to be purchased may be cancelled or held as treasury shares in accordance with the Companies (Jersey) Law, 1991, provided that the Company shall not hold as treasury shares more than 10% of the aggregate number of ordinary shares in issue at any one time;
 - (v) this authority expires at the conclusion of the next AGM of the Company after the passing of this resolution or fifteen months from the date of the passing of this resolution, whichever is earlier; and
 - (vi) the Company may make a contract to purchase ordinary shares under this authority before the expiry of the authority which will or may be executed wholly or partly after the expiry of the authority, and may make a purchase of ordinary shares in pursuance of any such contract.

Notice of Annual General Meeting (continued)

9. **THAT**, the Company may issue equity securities (as defined in Article 16) up to 10 per cent of the Company's issued share capital as at the date of the passing of this resolution, provided that such disapplication shall expire (unless and to the extent previously revoked, varied or renewed by the Company in general meeting by Special Resolution) at the earlier of the conclusion of the annual general meeting of the Company to be held in 2012 or eighteen months from the date of this resolution but so that this power shall enable the Company to make offers or agreements before such expiry which would or might require equity securities to be issued after such expiry and the directors of the Company may issue equity securities in pursuance of any such offer or agreement as if such expiry had not occurred.

By Order of the Board

R&H Fund Services (Jersey) Limited
Company Secretary
23 September 2011

Notes:

1. Information about this meeting is available from the Company's website; www.ncim.co.uk
2. As a member who is entitled to attend and vote at this meeting you are entitled to appoint one or more proxies to exercise all or any of your rights to attend, speak and vote on your behalf. Such a proxy need not also be a member of the Company. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise the rights attached to any one share.
3. A form of proxy is enclosed for use at the meeting. To be valid, the proxy card and any power of attorney or other authority, if any, under which it is signed, or a certified copy thereof must be lodged with the Company's registrar, Computershare Investor Services (Jersey) Limited, Queensway House, Hilgrove Street, St Helier, Jersey, JE1 1ES at least 48 hours before the meeting.
4. Completion of the proxy card will not prevent a shareholder from attending the meeting and voting in person.
5. Pursuant to Article 40 of the Companies (Uncertificated Securities) (Jersey) Order 1999, the Company has specified that only those shareholders registered on the register of members of the Company as at 6.00 pm on 11 December 2011, 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 11 December 2011, 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.



Proxy

New City High Yield Fund Limited - Annual General Meeting

I/We _____

of _____

Please complete in capitals using the exact name and address details printed on your address label

being a registered holder(s) of Ordinary Shares of **New City High Yield Fund Limited**, hereby appoint the Chairman of the Meeting or

_____ as my/our proxy to vote on my/our behalf at the Annual General Meeting of the Company to be held on Tuesday, 13 December 2011 at 11.00 a.m. and at any adjournment thereof. I have indicated with a "X" how I/we wish our votes to be cast on the following resolutions:

Resolution	For	Against	Withheld
1 To receive the Report of the Directors and the financial statements of the Company for the year to 30 June 2011, together with the auditor's report thereon.			
2 To approve the Directors' Remuneration Report.			
3 That Gavin D P Breeze be re-elected as a Director.			
4 That Adrian J R Collins be re-elected as a Director.			
5 That Graeme D Ross be re-elected as a Director.			
6 That KPMG Audit Plc, Chartered Accountants, be re-appointed as Auditor and that the Directors be authorised to determine their remuneration.			
7 That the Company continues as an investment company until the conclusion of the next Annual General Meeting of the Company.			
8 That the Company be authorised to make market purchases of Ordinary shares of no par value in the capital of the Company up to a maximum of 25,278,136 Ordinary shares.			
9 That the Company is authorised to issue Ordinary Shares of no par value to the Company up to a maximum of 10 per cent of the Ordinary Shares in issue.			

Signature _____

Date _____

Notes

1. In the case of joint holders, the vote of the first named in the register who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holders.
2. A corporation must execute this form of proxy under either its common seal or the hand of a duly authorised officer or attorney.
3. To be valid, this form of proxy together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof must reach Computershare Investor Services (Jersey) Limited, Queensway House, Hilgrove Street, St Helier, Jersey, JE1 1ES at least 48 hours before the Meeting.
4. Any alterations made in this Proxy should be initialled.
5. Completion of a Proxy shall not prevent (a) beneficial owner(s) from attending the Annual General Meeting but (a) beneficial owner(s) has/have no right as such to speak or vote at the Annual General Meeting.
6. The vote Withheld option is to enable you to abstain on any particular resolution. Such a vote is not a vote in law and will not be counted in the votes "For" or "Against" a resolution.

Corporate Information

Registered Number	95691	
Directors	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	
Registered Office	New City High Yield Fund Limited Ordnance House, 31 Pier Road St. Helier, Jersey JE4 8PW Channel Islands	
Investment Manager	New City Investment Managers 5th Floor 33 Grosvenor Place, London SW1X 7HY Tel: 020 7201 6900	CQS Cayman Limited Partnership Ugland House South Church Street George Town, KY1-1104 Grand Cayman Cayman Islands
Company Secretary and Administrator	R&H Fund Services (Jersey) Limited Ordnance House, 31 Pier Road St. Helier, Jersey JE4 8PW Channel Islands Tel: 01534 825200	
UK Administrator	F&C Investment Business Limited 80 George Street, Edinburgh EH2 3BU Tel: 020 7628 8000	<p>The Company has served notice on F&C Investment Business Limited terminating its appointment as the Company's UK administrator with effect from 21 November 2011. The Company intends to appoint R&H Fund Services (UK) Limited as its administrator with effect from 21 November 2011.</p>
Registrars	Computershare Investor Services (Jersey) Limited Queensway House, Hilgrove Street St. Helier, Jersey JE1 1ES Channel Islands Tel: 01534 281800	
Financial Adviser/Stockbroker	Canaccord Genuity Limited 7th Floor Cardinal Place 80 Victoria Street London SW1E 5JL	
Auditor	KPMG Audit Plc 20 Castle Terrace, Edinburgh EH1 2EG	
Bankers and Custodian Bankers	HSBC Bank PLC 8 Canada Square, London E14 5HQ	
Jersey Lawyers to the Company	Ogier Whiteley Chambers Don Street, St. Helier Jersey, JE4 9WG Channel Islands	
UK Solicitors to the Company	Maclay Murray & Spens LLP One London Wall, London EC2Y 5AB	
Website	www.ncim.co.uk	
ISIN	JE 00B1LZS514	



newcity
high yield fund limited



Liberation Square, Jersey