

newcity
high yield fund limited



2008
Report & Accounts

For the period from incorporation on 17 January 2007 to 30 June 2008
(launched on 7 March 2007)

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 and corporate bonds and government stocks.

Further details on the Investment Policy is contained in the Directors' Report on pages 9 and 10.

Dividend Policy

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

Further details on dividends and the current dividend yield is contained in the Directors' Report on page 10.

Corporate Summary

New City High Yield Fund Limited is a closed-end investment company and was incorporated with limited liability in Jersey on 17 January 2007. The Company's ordinary shares are listed on the Official List of the UK Listing Authority and trade on the London Stock Exchange's main market; dealings commenced on 7 March 2007.

The net assets of New City High Yield Trust plc which totalled £53 million were transferred to New City High Yield Fund Limited on 6 March 2007 to enhance net distributable income and increase investment flexibility.

The Company's share capital structure consists only of ordinary shares of no par value. The ordinary shares give shareholders the entitlement to all of the capital growth in the Company's net assets and to all the Company's income that is resolved to be distributed. At 30 June 2008 the Company also had bank borrowings of £16 million which rank for repayment ahead of any capital return to shareholders.

Important information

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

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

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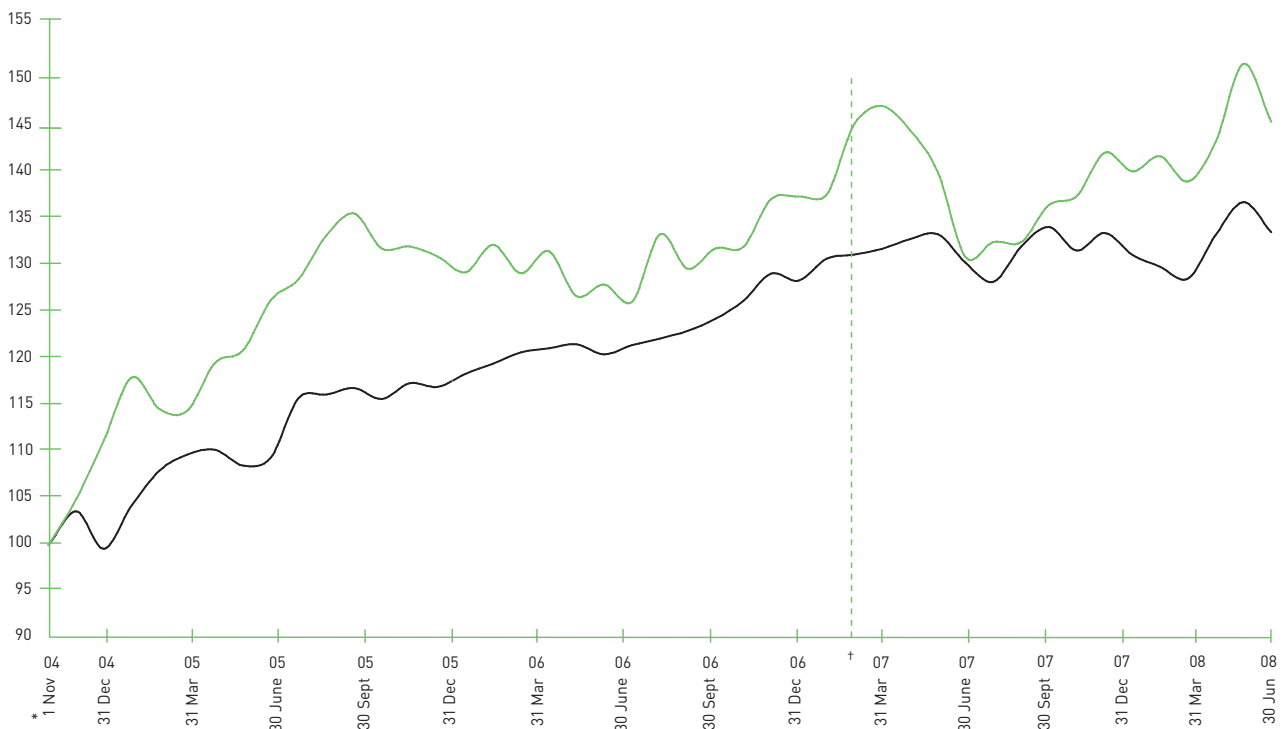
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Financial Highlights

For the period to 30 June 2008

- Net asset value total return of 2.4 per cent, since launch on 7 March 2007.
- Ordinary share price total return of 3.7 per cent, since launch on 7 March 2007.
- Dividend yield of 6.8 per cent, based on dividends at an annualised rate of 3.57p and a share price of 52.5p at 30 June 2008.
- Ordinary share price at a premium of 2.9 per cent to net asset value at 30 June 2008.
- £15 million raised in March 2007 through a placing and offer for subscription, in addition to the rollover of New City High Yield Trust plc shareholders' interests of £53 million into the Company.
- £1.8 million and £4.7 million raised in December 2007 and February 2008 respectively, through placings with both existing and new investors.

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



* Richard Lockwood, Midas Capital Partners Limited appointed Investment Manager on 1 November 2004

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

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

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



Performance Summary

	Period from launch to 30 June 2008 % return
Total Return	
Net asset value	2.4
Ordinary share price	3.7

	30 June 2008	7 March 2007 (launch)	% change
Capital Values			
Total assets less current liabilities*	87.1m	81.4m	+7.0%
Net asset value per ordinary share	51.0p	53.2p	-4.1%
Share price (mid market)	52.5p	54.0p	-2.8%

	Period from launch to 30 June 2008		
Revenue and Dividends			
Revenue return per ordinary share	5.62p	-	
Dividends per ordinary share	4.42p	-	
Dividend cover	1.27x	-	
Dividend Yield (annualised)	6.8%	-	
Premium (difference between share price and net asset value)	2.9%	1.3%	
Gearing (100 = nil geared position)†	122	121	
Annualised Total Expense Ratio (as percentage of average shareholders' funds)	1.5%	-	

	2008 High	2008 Low
Period's Highs/Lows		
Net Asset Value	53.9p	49.5p
Ordinary Share Price	57.0p	49.0p
Premium/(Discount)	6.5%	(4.5)%

* Post launch, a further £6.5 million was raised pursuant to placings of shares (refer to note 12).

† Gearing = Total Assets ÷ Equity Shareholders' Funds.

Dividend History

24 August 2007	First interim dividend of 0.85p per ordinary share paid
23 November 2007	Second interim dividend of 0.85p per ordinary share paid
28 February 2008	Third interim dividend of 0.85p per ordinary share paid
30 May 2008	Fourth interim dividend of 0.85p per ordinary share paid
29 August 2008	Fifth interim dividend of 1.02p per ordinary share paid

Directors

James West (Chairman), (age 61). 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 Gartmore Fledgling Trust plc, Jupiter Second Enhanced Income Trust plc and Rurelec plc. He is also a director of British Assets Trust plc, GNE Group plc, Shires Smaller Companies plc, JPMorgan Income and Capital Trust plc, IPSA Group plc and UK Select Trust Limited.

Gavin D P Breeze, (age 47). He founded DataCash Group plc in September 1997 and has been responsible for development of its payment services and products, setting up strategic relationships and developing its merchant client base. He left the board of DataCash Group plc in March 2008 and now runs his own consultancy company focussed on payment services.

Allister F Carey, (age 58). He has over 30 years' experience of stock broking and investment management in Guernsey and is a fellow of the Securities Institute. Until February 2003, he was in charge of the Guernsey branch of Brewin Dolphin, a post that he held since its inception in 1997. Prior to that appointment he had been the chief executive in

Guernsey for James Capel (Channel Islands) Ltd. He is also a director of Invesco Leveraged High Yield Fund Limited.

Adrian Collins, (age 54). He has worked in the fund management business for over 30 years, a large part of which was at Gartmore Investment Management Limited where latterly he was managing director. He is Chairman of Corvus Capital Inc. and is also on the boards of City Natural Resources High Yield Trust plc, Deutsche Land plc, Midas Capital plc and a number of other companies.

Graeme D Ross, (age 47). 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

Effective from 1 October 2007, **CQS Cayman Limited Partnership** ("CQS") became the Investment Manager and has delegated this function to **New City Investment Managers Limited** ("NCIM").

NCIM was established by Richard Lockwood, and New City High Yield Fund Limited had initially appointed NCIM as its Investment Manager with effect from launch. Effective 1 October 2007 NCIM joined CQS, a US\$9.7 billion alternative asset manager and the investment management agreement was novated to CQS.

Mr Lockwood has 30 years' experience in institutional investment, primarily with Hoare Govett where he was a partner. Mr Lockwood was the founding director of City Merchants High Yield Trust Plc in May 1991, which he managed from its launch until April 2003. In June 2003, Mr Lockwood joined Midas Capital Partners Limited and subsequently transferred to NCIM in April 2005. He is also the lead Fund Manager of City Natural Resources High Yield Trust plc and Geiger Counter Limited. Mr Lockwood is supported in managing the Company's portfolio by Ian Francis and Andrew Ferguson.



Chairman's Statement

Introduction

I am pleased to present the Company's first Report and accounts which covers the period from incorporation on 17 January 2007 to 30 June 2008.

Investment Performance

Investment markets, both in the UK and abroad have been difficult throughout the Company's life. The UK economy and sterling have weakened further since my last Interim report, and uncertainty remains in many markets whether equity or debt.

Against this backdrop, it is pleasing to report a net asset value total return of 2.4 per cent and a share price total return of 3.7 per cent since launch on 7 March 2007. As noted in the last Interim report, the Manager had concerns regarding the prospect for sterling. As such, the balance of the investment portfolio was changed, with nearly half of the portfolio now invested outside the UK. Given the fall in sterling, these concerns were well founded. The realignment of the portfolio has therefore helped both the net asset value and the investment income stream.

Dividends

In the first financial period to 30 June 2008, the Company paid four interim dividends of 0.85p per share and a further 1.02p per share was paid after the period end, on 29 August 2008. Based on an annualised rate of 3.57p and a share price of 52.5p at the period end, this represents a yield of 6.8 per cent. The annualised rate of 3.57p per share compares favourably, and is 27.5% higher than the previous annual rate of 2.8p per share within New City High Yield Trust plc. This has also been achieved alongside a significant increase in our revenue reserve equivalent to 1.05p per share.

Launch of the Company and Fundraisings

As noted within the Interim reports the Company was launched on 7 March 2007 following the voluntary winding up of New City High Yield Trust plc and the rollover of its shareholders' interests (£53 million) into the Company. The objective of this transaction was to enhance net distributable income and increase investment flexibility. In this first period, as is illustrated above, we have been able to increase net distributable income which has justified the rollover of assets into this Jersey domiciled company.

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

The appeal of the investment remit, and the Company's success in delivering it, has been evidenced by three fundraisings; £15 million was raised from new and existing shareholders pursuant to a placing at the time of launch, £1.8 million was raised in December 2007 and a further £4.7 million was raised in February 2008.

Outlook

Market conditions have been and remain exceptionally difficult; however, we believe that the ongoing credit crunch will continue to provide opportunities to invest in new bond issues with, where possible, equity participation.

James G West

Chairman

29 September 2008

Investment Manager's Review

Investment Performance

To say that the six months under review were difficult would be something of an understatement. Under the circumstances to report a positive total return, albeit small, might be seen as an achievement. This was realised in the main by continuing to move a considerable percentage of the portfolio into overseas bonds and convertibles. Sterling remained under pressure and given the current economic background this trend is likely to continue. We mentioned in our last report the continued slide in stocks such as the Balfour Beatty plc convertible which at one stage was on a yield of nearly 9 per cent. This Company has been growing at about 30 per cent over the last three years and is currently just outside the FTSE 100 by capitalisation. This bond is outstanding value and the Fund has continued to add to its holding. Unfortunately, subsequent to the period end, the investment in FibreGen was written down by an amount equivalent to 1.58p per share. This is explained further in note 25 to the financial statements. The Managers continue to work on this investment to ensure that the Fund's interests are protected.

Investment Activity

The main drive within the portfolio has been not only to buy overseas bonds but, as an alternative, to invest in UK companies which derive their earnings from abroad. Aside from Balfour Beatty plc, the Fund has also added to REA Holdings, a highly profitable palm oil producer and started a holding in the 13 per cent bonds of the Athabasca Group; while this is not a quoted stock, the bonds have 100 per cent security on the project which is involved in the extraction of oil from tar sands in Canada. The Fund's second largest holding currently is in the 8.5 per cent bonds of Brit Insurance which is due for repayment this year. During the period, Chemetall repaid their preference shares, while Kensington Group was acquired by Investec. Subsequent to the period end, one of London Mining's main investments was sold and the Company has announced its intention of repaying its bonds.

Outlook

It might sound somewhat melodramatic but perhaps the best word to sum up the general outlook is grim. At the present time the Managers work on two clear and definite maxims; namely the preservation of capital and the maintenance of income. It appears increasingly difficult to retain much optimism about the prospects for sterling but using the same rationale it wouldn't appear that the Euro has a huge amount going for it. As it is just about impossible to get any worthwhile yields in Japan that leaves us with the US dollar. On the least of all evils argument, it is likely that the Fund's exposure to that currency will increase. It is at times like this that fund managers have to really work hard. More and more the exercise is to find companies where the cash flow will remain sufficient to enable interest payments to continue; this remains difficult but certainly not impossible. In spite of the worldwide economic malaise, we remain confident that the Fund will be able to present another satisfactory report this time next year.

Richard Lockwood / Andrew Ferguson / Ian Francis

New City Investment Managers Limited

29 September 2008



Investment Portfolio

As at 30 June 2008

Company	Sector	Valuation £'000	Net assets %
Balfour Beatty 10.75% CCP	Construction	4,763	6.7
BRIT Insurance 8.5% CULS 31/12/08	Insurance	3,881	5.5
Cable & Wireless 8.625% 25/03/19	Telecom	2,724	3.8
FibreGen (formerly Libra Natural Resources) 8% CV 30/06/10 (refer note 25, Post balance sheet event)	Environment	2,688	3.8
Collins Stewart Tullett 8.25% 12/08/14	Financial	2,389	3.3
REA Finance 9.5% 31/12/17	Food Products	1,854	2.6
Alliance Pharma 8% CV 31/12/13	Pharmaceuticals	1,850	2.6
Iron Mountain 7.25% 15/04/14	Commercial Services	1,800	2.5
Myer Group Finance 10.1938% 15/03/13	Retail	1,699	2.4
FMG Finance 9.75% 01/09/13	Mining	1,678	2.4
Top ten investments		25,326	35.6
London Mining 11.5% 26/04/12	Mining	1,578	2.2
Norwegian Energy 11% 13/07/10	Oil & Gas	1,515	2.2
Corero 8% CULS 31/10/11	Software	1,470	2.1
Katanga Mining 14% 13/11/13	Mining	1,426	2.0
Cirsa Capital 8.75% 15/05/14	Leisure	1,354	1.9
Antares Energy CV 10% 31/10/13	Oil & Gas	1,224	1.7
Western Area 8% CV 02/07/12	Mining	1,217	1.7
Sevan Drilling FRN 07/12/12	Oil & Gas	1,172	1.6
REA Holdings 9% CP	Food Products	1,070	1.5
Troms Fylkes 7% CV 08/06/09	Marine	1,065	1.5
Top twenty investments		38,417	54.0
Edcon Proprietary FRN 15/06/14	Retail	1,061	1.5
First Hydro Finance 9% 31/07/21	Financial	1,060	1.5
Kensington Group 9% 21/12/15	Financial	1,022	1.4
Great Panther 8% CV 11/07/11 (unquoted*)	Mining	1,003	1.4
Satcom 8% CLN 30/06/09	Telecom	1,000	1.4
GoIndustry 8% CV 05/05/09 (unquoted*)	Retail	1,000	1.4
Metals Exploration 9% CV 01/08/11 (unquoted*)	Mining	1,000	1.4
Green Park CLN 8% 31/07/10 (unquoted)	Environment	1,000	1.4
British Airways 7.25% 23/08/16	Airlines	927	1.3
Grohe Holdings 8.625% 01/10/14	Manufacturing	911	1.3
Top thirty investments		48,401	68.0
Zlomrex International 8.5% 01/02/14	Environment	891	1.3
PA Resources FRN 09/01/09	Oil & Gas	888	1.2
Dyno Nobel SPS Preference Shares	Mining	830	1.2
Scottish Mutual 7.25% 25/03/21	Insurance	815	1.1
Cirsa Capital 7.875% 15/07/12	Leisure	802	1.1
Coutts Consulting 8% CP (unquoted)	Commercial Services	775	1.1
HTM Sport & Freizeit 8.5% 01/02/14	Leisure	760	1.1
Croma Group 8% CLN 20/06/11 (unquoted*)	Aerospace & Defence	750	1.1
Chemetall 9% CP	Chemicals	720	1.0
Allied London Properties 10.75% 31/12/25	Real Estate	698	1.0
Top forty investments		56,330	79.2

Investment Portfolio (continued)

As at 30 June 2008

Company	Sector	Valuation £'000	Net assets %
Xinhua Finance 10% 21/11/11	Mining	679	1.0
Warner Music 8.125% 15/04/14	Media	670	0.9
Norse Energy 10% 13/07/10	Oil & Gas	663	0.9
DP Producer Ocean FRN 24/07/09	Oil & Gas	616	0.9
Pengrowth Energy Trust	Oil & Gas	609	0.9
IFCO Systems 10.375% 15/10/10	Paper & Forestry Products	609	0.9
FMG Finance 10.625% 01/09/16	Mining	586	0.8
Enerplus Resources Fund	Oil & Gas	584	0.8
Fording Canadian Coal Trust	Mining	576	0.8
General Motors 8.875% 10/07/23	Automobiles	574	0.8
Top fifty investments		62,496	87.9
Bounty 10% 30/06/10	Oil & Gas	540	0.8
Bellway 9.5% CP	Real Estate	540	0.8
First Australian Resources 10% 31/01/09	Oil & Gas	538	0.7
New Gold 10% 28/06/17	Mining	521	0.7
IT Holding Finance 9.875% 15/11/12	Textiles	521	0.7
Petromena 10.85% 19/11/10	Oil & Gas	507	0.7
Petaquilla 15% 20/05/13 (unquoted)	Mining	502	0.7
Tamaya Resources 8.5% CV 22/10/12 (unquoted*)	Mining	502	0.7
Mano River Resources 9% 01/08/10 (unquoted*)	Mining	500	0.7
Offrig 9.75% 27/04/11	Oil & Gas	492	0.7
Top sixty investments		67,659	95.1
Royal & Sun Alliance 7.375% CP	Insurance	488	0.7
Harvest Energy Trust	Oil & Gas	486	0.7
AES Corporation 8.375% 01/03/11	Electricity	485	0.7
White Energy Co 7.9% CV 12/10/12 (unquoted*)	Mining	482	0.7
Advance Energy 11% CV 14/05/09 (unquoted*)	Oil & Gas	482	0.7
Skyepharma 6% CV 04/05/24	Pharmaceuticals	479	0.7
Rubicon Offshore FRN 16/04/12	Oil & Gas	461	0.6
Neder Waterschapsbank 6% 30/06/45	Financial	450	0.6
Nexus 10.5% 07/03/12	Financial	447	0.6
Scandinavian Airlines 2.375% 14/01/11 Perpetual	Airlines	445	0.6
Top seventy investments		72,364	101.7
Other investments (42)		11,097	15.6
Total investments		83,461	117.3
Net current liabilities†		(12,337)	(17.3)
Net Assets		71,124	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 of £16 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 2008

By Currency

	2008 Total investments %
Sterling	53
Euro	14
Norwegian Krone	9
Australian Dollar	9
US Dollar	8
Canadian Dollar	7
Total investments	100

By Asset Class

	2008 Total investments %
Bonds	55
Convertibles	28
Preference Shares	12
Equity Shares	5
Total investments	100

By Quotation

	2008 Total investments %
Listed/Quoted on a recognised investment exchange	89
Unquoted (convertible into a security quoted on a recognised exchange)	8
Unquoted	3
Total investments	100

Directors' Report

Results and Dividends

The Directors have pleasure in presenting their first Report and Accounts of the Company for the period from incorporation on 17 January 2007 to 30 June 2008. The Company's shares commenced trading on the London Stock Exchange on 7 March 2007.

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

Dividends	£'000
Current period net revenue available for dividends	7,327
Dividends on ordinary shares	
First interim dividend of 0.85p per share paid on 24 August 2007	(1,077)
Second interim dividend of 0.85p per share paid on 23 November 2007	(1,077)
Third interim dividend of 0.85p per share paid on 28 February 2008	(1,106)
Fourth interim dividend of 0.85p per share paid on 30 May 2008	(1,185)
Fifth interim dividend of 1.02p per share paid on 29 August 2008*	(1,422)
	<hr/> 1,460

*The fifth interim dividend of 1.02p per share which was paid after the period 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 Company has obtained a certificate under Article 7 of the Jersey Funds Law from the Jersey Financial Services Commission to operate as a functionary within the Islands of Jersey. 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 UK Listing Authority and trade on the London Stock Exchange's main market; dealings commenced on 7 March 2007.

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

Business Review

The Board of Directors is responsible for the overall stewardship of the Company, including investment and dividend policies, corporate strategy, gearing, corporate governance, and risk management. Biographical details of the Directors, all of whom are non-executive, can be found on page 3.

The following review provides information about the Company's business and results for the period to 30 June 2008 and covers:

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

Investment objective

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

Investment policy and limits

- The Company invests predominantly in fixed income securities, including, but not limited to, preference shares, loan stocks, corporate bonds (convertible and/or redeemable) and government stocks. The Company also invests in equities and other income-yielding securities.
- Exposure to higher yielding securities may also be obtained by investing in other closed-end investment companies and open-ended collective investment schemes.
- There are no defined limits on securities and accordingly the Company may invest up to 100 per cent of total assets in any particular type of security.
- There are no defined limits on countries or sectors, therefore the Company may invest in companies regardless of country, size or sector and, accordingly, the Company's portfolio is constructed without reference to the composition of any stockmarket index or benchmark.
- The Company may, but is not obliged to, invest in derivatives, financial instruments, money market instruments and currencies for the purpose of efficient portfolio management.



Directors' Report (continued)

- The Company may acquire securities that are unlisted or unquoted at the time of investment but which are about to be, or are immediately convertible at the option of the Company into securities which are listed or traded on a stock exchange, and may continue to hold securities that cease to be quoted or listed if the Investment Manager considers this appropriate. In addition, the Company may invest up to 10 per cent of its gross assets in other securities that are unlisted or unquoted at the time of investment.
- The Board has established a maximum investment limit, whereby at the time of investment, the Company may not invest more than 5 per cent of its total investments in the same investee company.

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

Investment approach

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

Gearing

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

Dividends

While it is the intention of the Directors to pay dividends to shareholders quarterly, the ability of the Company to pay any dividends in respect of the shares will depend primarily on the level of income received from its investments and the timing of receipt of such income by the Company. Accordingly,

the amount of the quarterly dividends paid to shareholders may fluctuate.

In the reporting period, the Company paid dividends totalling 3.40p per share and has declared a further dividend of 1.02p per share which was paid after the period end, on 29 August 2008. Based on an annualised rate of 3.57p per share and a share price of 52.5p at the period end, this represents a yield of 6.8 per cent.

Management and administration

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

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

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

Custody and settlement services are undertaken by HSBC Bank plc. The Board has delegated the exercise of voting rights attaching to the Company's investments to the Investment Manager.

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

Principal risks and risk management

The Company's assets consist principally of listed fixed interest securities and its principal risks are therefore market related. The Company is also exposed to currency risk in respect of the markets in which it invests. More detailed explanations of these risks and the way 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,

Directors' Report (continued)

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 14 and 15.

Performance measurement and key performance indicators

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

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

- Dividend yield.
- Dividend cover.
- Share price total return.
- Net asset value total return.

- Discount/premium of share price to net asset value.
- Total expenses as a ratio of shareholders' funds.

The relevant information is found on pages 1 and 2 under the Financial Highlights and Performance Summary sections.

A review of the Company's returns during the financial period, the position of the Company at the period end and the outlook for the coming year is contained within the Chairman's Statement on page 4 and the Investment Manager's Review on page 5.

The Investment Manager's Review on page 5 provides a review of the investment portfolio (as detailed on pages 6 to 7) and market conditions during the period.

Bank facilities

A borrowing facility of £18 million is currently in place with Allied Irish Bank. At the period end, the Company had drawn down £16 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 3.

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 3 will retire at the Annual General Meeting of the Company and, being eligible, will offer themselves for re-election.

In addition, Mr Gavin Breeze whose biography appears on page 3 retires by rotation at the second Annual General Meeting of the Company and, being eligible, offers himself for re-election.

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



Directors' Report (continued)

The Directors who held office during the period and their interests in the shares of the Company as at 30 June 2008 were:

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

There have been no changes in the holdings of the Directors between 30 June 2008 and 29 September 2008.

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

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

Managers' interest

The interest of the key Fund Managers at NCIM, in the shares of the Company as at 30 June 2008 were:

	Ordinary Shares 2008
R Lockwood	225,000
A Ferguson	–
I Francis	73,053

Substantial Interests in Share Capital

At 29 September 2008 the only persons known to the Company who, directly or indirectly, were interested in 3.0 per cent or more of the Company's issued share capital were as follows:

	Number of Ordinary Shares Held	Percentage Held
Brewin Dolphin Securities, Stockbrokers	27,041,430	19.4
Tilney Investment Management	13,476,727	9.7
UBS Wealth Management	12,688,997	9.1
Newton Investment Management	8,269,856	5.9
Rensburg Sheppards Investment Management	7,244,919	5.2
Collins Stewart, Stockbrokers	5,469,415	3.9
Charles Stanley Clients	5,308,867	3.8
Rathbones	4,791,315	3.4

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

Management and Management Fees

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

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

Corporate Governance

Arrangements in respect of corporate governance, appropriate to an investment company, have been made by the Board. The Board has considered the principles and recommendations of the AIC's Code of Corporate Governance issued in May 2007 (the 'AIC Code') by reference to the AIC Corporate Governance Guide for Investment Companies (the 'AIC Guide'). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in Section 1 of the Combined Code on Corporate Governance issued by the Financial Reporting Council in June 2006 (the 'Combined Code'), as well as setting out additional principles and recommendations on issues which are of specific relevance to investment companies.

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

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

Except as disclosed, the Company has complied throughout the period with the recommendations of the AIC Code, and the relevant provisions of the Combined Code. Since all Directors are non-

Directors' Report (continued)

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

In view of the requirement in the Articles of Association that all Directors retire by rotation, the Board considers that it is not appropriate for the Directors to be appointed for a specified term as recommended by principle 3 of the AIC Code and provision A.7.2 of the Combined Code. However, the Board has agreed that each Director will retire and, if appropriate, seek re-election after each three years' service, and annually after serving on the Board for more than nine years. For the purposes of assessing compliance with the Combined Code, the Board considers all of the Directors as independent of the Investment Manager and free from any business or other relationship that could materially interfere with the exercise of their independent judgement. However, as both Mr A Collins and Mr G Ross sit on the boards of more than one company managed by the Investment Manager, they are not regarded independent for the purpose of the AIC Code. Mr A Collins and Mr G Ross, as non-independent Directors under the AIC Code, are subject to annual re-election.

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

The Company has no executive Directors or employees. A management agreement between the Company and its Investment Manager, CQS/NCIM, sets out the matters over which the Managers have 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, 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, are 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 period a number of committees have been in operation, namely the Audit Committee, the Management Engagement Committee and the Nomination Committee.

Audit Committee

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

Management Engagement Committee

The Management Engagement Committee, chaired by Mr J G West, comprises the full Board and reviews the appropriateness of the Investment Manager's continuing appointment together with the terms and conditions thereof on a regular basis.

Nomination Committee

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



Directors' Report (continued)

Performance evaluation

During the period 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 35 relating to the Directors seeking re-election.

The following table sets out the number of Board and Committee meetings held during the period from incorporation to 29 September 2008 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	7	7	3	3	1	1	1	1
G D P Breeze	7	7	3	3	1	1	1	1
A F Carey	7	7	3	3	1	1	1	1
A J R Collins	7	6	3	3	1	1	1	1
G D Ross	7	7	3	3	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.

Commencing at the Annual General Meeting on 29 October 2008 and at each subsequent Annual General Meeting of the Company, shareholders will be 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 bearing in mind the nature of the Company's business and assets, the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts, notwithstanding that the Company is subject to an annual continuation vote as described above.

Internal Controls

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

for Directors on the Combined Code" (the Turnbull guidance) the Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This process has been in place for the period under review and up to the date of approval of this Report and Accounts, and is regularly reviewed by the Board and is in accordance with the Turnbull guidance. The Board has reviewed the effectiveness of the systems of internal control. In particular, it has reviewed and updated the process for identifying and evaluating the significant risks affecting the Company and the policies by which these risks are managed. The significant risks faced by the Company are as follows:

- financial;
- operational; and
- compliance.

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

- The UK Administrator prepares forecasts and management accounts which allow the Board to assess the Company's activities and review its performance;
- The Board and Investment Manager have agreed clearly defined investment criteria, specified levels of authority and exposure limits. Reports of these issues, including performance

Directors' Report (continued)

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; and
- At its September 2008 Board meeting the Board carried out an annual assessment of internal controls for the period ended 30 June 2008 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 2008.

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 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 matters of 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 18.

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Continuation Vote

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

Directors' Authority to Allot Shares

Under the Articles of Association, the Directors have wide powers to issue new ordinary shares on a non pre-emptive basis. New ordinary shares will not be issued at a price less than the prevailing net asset value per ordinary share, after taking into account any costs incurred by the Company in connection with such issue, and therefore, will not be disadvantageous to existing shareholders. Any issues of new ordinary shares will be carried out in accordance with the Listing Rules. During the period since launch 12,669,600 new ordinary shares have been issued as shown in note 12.

Directors' Authority to Buy Back Shares

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

The current authority of the Company to make purchases of up to approximately 14.99 per cent of its issued capital expires at the end of the Annual General Meeting and Resolution 8 seeks renewal of such authority until the next Annual General Meeting (or the expiry of 15 months, if earlier). The maximum and minimum prices to be paid for shares are set out in Resolution 8. This power will be exercised only if, in the opinion of the Directors, a repurchase would result in an increase in net asset value per share and would be in the best interests of shareholders as a whole.



Directors' Report (continued)

Relations with Shareholders

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

Creditor Payment Policy

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

Auditors

KPMG Audit Plc were appointed at the Annual General Meeting held on 1 November 2007 and have expressed their willingness to continue in office as auditors and a resolution proposing their re-appointment and to authorise the Directors to determine their remuneration will be submitted at the Annual General Meeting.

By Order of the Board

R&H Fund Services (Jersey) Limited

Secretary

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

29 September 2008

Directors' Remuneration Report

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

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

As the Board of Directors consists solely of non-executive Directors, it is exempt under the Listing Rules from appointing a Remuneration Committee. The determination of the Directors' fees is a matter dealt with by the whole Board.

Policy on Directors' Fees

The Company's current Articles of Association limit the aggregate fees payable to the Board of Directors to a total of £150,000 per annum. Subject to this overall limit, it is the Company's policy that the remuneration of non-executive Directors should reflect the experience of the Board as a whole, be fair and comparable to that of other relevant investment companies that are similar in size and have similar investment objectives and structures. Furthermore, the level of remuneration should be sufficient to attract and retain the Directors needed to oversee properly the Company and to reflect the specific circumstances of the Company, the duties and responsibilities of the Directors and the value and amount of time committed to the Company's affairs. It is intended that this policy will continue for the year ending 30 June 2009 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 note 4 to the financial statements. No other Directors were interested in contracts with the Company during the period 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

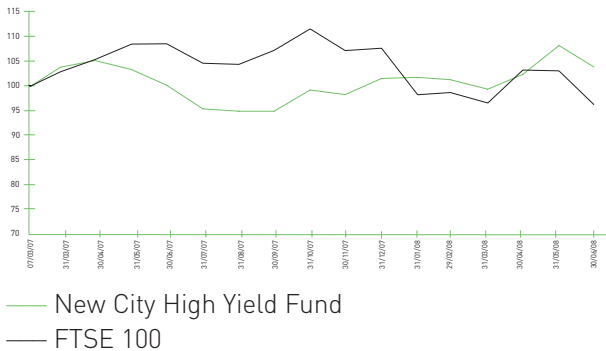
The Board is responsible for the Company's investment strategy and performance, although the management of the Company's investment portfolio is delegated to the Investment Manager through the investment management agreement, as referred to in the Directors' Report on page 10.

The graph on the next page 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 2008. 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.



Directors' Remuneration Report (continued)

Share Price Total Return versus FTSE 100 Index Total Return



Directors' Emoluments for the Period

The Directors who served during the period received the following emoluments in the form of fees from their appointment on 17 January 2007 to 30 June 2008:

	Fees 2008 £'000
J G West (Chairman)	31
G D P Breeze (Audit Committee Chairman)	23
A F Carey	21
A J R Collins	21
G D Ross [†]	15
	111

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

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

On behalf of the Board

J G West

Director

29 September 2008

Statement of Directors' Responsibilities

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

The Directors are responsible for preparing the Report and the financial statements in accordance with applicable Jersey law and generally accepted accounting principles.

Jersey law requires the Directors to prepare in accordance with generally accepted accounting principles, financial statements for each financial period which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. Under Jersey law they have elected to prepare the financial statements in accordance with UK Accounting Standards.

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

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting 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.

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

We have audited the financial statements of New City High Yield Fund Limited for the period ended 30 June 2008 which comprise the Income Statement, the Balance Sheet, the Reconciliation of Movements in Shareholders' Funds and the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Article 110 of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 18.

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

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies (Jersey) Law 1991. We also report to you whether in our opinion, the information given in the Directors' Report and Business Review is consistent with the financial statements. The information given in the Directors' Report and Business Review includes that specific information presented in the Chairman's Statement, Investment Manager's Review, Financial Highlights and Performance Summary that is cross referenced from the Business Review. We also report to you if, in our opinion, the Company has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30 June 2008 and of its return for the period then ended; and
- the financial statements have been properly prepared in accordance with the Companies (Jersey) Law 1991.

KPMG Audit Plc

Chartered Accountants
Registered Auditor, Edinburgh

29 September 2008



Income Statement

Period from 17 January 2007 (date of incorporation) to 30 June 2008

	Notes	Revenue £'000	Capital £'000	Total £'000
Losses on investments	9	–	(4,858)	(4,858)
Exchange losses		–	(153)	(153)
Income	2	9,685	–	9,685
Investment management fee	3	(666)	(222)	(888)
Other expenses	4	(462)	(6)	(468)
Net return before finance costs and taxation		8,557	(5,239)	3,318
Interest payable and similar charges	5	(1,069)	(356)	(1,425)
Return on ordinary activities before taxation		7,488	(5,595)	1,893
Irrecoverable withholding tax	6	(161)	–	(161)
Return on ordinary activities after tax		7,327	(5,595)	1,732
Return per ordinary share (pence)	8	5.62p	(4.29)p	1.33p

The 'Total' column of this statement is the profit and loss account of the Company.

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

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

The accompanying notes are an integral part of this statement.

Balance Sheet

As at 30 June 2008

	Notes	2008 £'000
Fixed assets		
Investments	9	83,461
Current assets		
Debtors	10	2,400
Cash at bank		2,103
		4,503
Creditors: amounts falling due within one year	11	(16,840)
Net current liabilities		(12,337)
Net assets		71,124
Share capital and reserves		
Stated capital account	12/13	23,452
Special distributable reserve	13	50,385
Capital reserve	13	(5,595)
Revenue reserve	13	2,882
Equity shareholders' funds		71,124
Net asset value per ordinary share (pence)	14	51.03p

The financial statements on pages 20 to 34 were approved by the Board of Directors on 29 September 2008 and were signed on its behalf by:

J G West, Director

The accompanying notes are an integral part of this balance sheet.

Reconciliation of Movements in Shareholders' Funds

Period from 17 January 2007 (date of incorporation) to 30 June 2008

	2008 £'000
Equity shareholders' funds at 17 January 2007 (date of incorporation)	–
Return on ordinary activities after taxation	1,732
Increase in share capital in issue attributable to rollover from New City High Yield Trust plc	52,964
Increase in share capital in issue attributable to placings and offer of subscription	21,481
Launch costs	(596)
Cost of reduction in stated capital account	(12)
Dividends paid	(4,445)
Equity shareholders' funds at 30 June 2008	71,124



Cash Flow Statement

Period from 17 January 2007 (date of incorporation) to 30 June 2008

	Notes	2008 £'000
Operating activities		
Investment income received		8,405
Deposit interest received		127
Investment management fees paid		(830)
Other cash payments		(401)
Net cash inflow from operating activities	15	7,301
Servicing of finance		
Interest on loan		(1,180)
Net cash outflow from servicing of finance		(1,180)
Taxation		
Irrecoverable withholding tax paid		(152)
Capital expenditure and financial investment		
Purchases of investments		(57,322)
Disposals of investments		34,649
Net cash outflow from capital expenditure and financial investment		(22,673)
Dividends		
Equity dividends paid		(4,445)
Net cash outflow before financing		(21,149)
Financing		
Issue of ordinary shares		21,599
Expenses of share issues and launch costs		(714)
Cost of reduction in stated capital account		(12)
Bank loan drawn down		2,000
Net cash inflow from financing		22,873
Increase in cash	16	1,724
Reconciliation of net cash flow to movement in net debt		
Increase in cash in the period		1,724
Cash inflow from transfer of cash from New City High Yield Trust plc [†]		532
Exchange losses		(153)
Cash inflow from bank loan drawn down		(2,000)
Transfer of loan from New City High Yield Trust plc [†]		(14,000)
Movement in net debt in the period		(13,897)
Opening net debt at 17 January 2007		–
Closing net debt at 30 June 2008	16	(13,897)

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

Notes to the Financial Statements

1. Accounting policies

(a) Basis of accounting

These financial statements have been prepared under UK Generally Accepted Accounting Practice ("UK GAAP") and in accordance with the guidance set out in the Statement of Recommended Practice ("SORP") for investment trust companies issued by the Association of Investment Companies ("AIC") issued in December 2005. 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 accounting standards.

The functional and reporting currency of the Company is pounds sterling because that is the primary economic environment in which the Company operates.

A summary of the principal accounting policies adopted is set out below.

(b) Investments

Purchases or sales of investments are recognised at the date of transaction. Investments are valued at fair value through profit or loss. For quoted 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.

Where trading in the securities of an investee company is suspended the investment is valued at the Board's estimate of its net realisable value. Unlisted investments are valued by the Directors on the basis of all the information available to them at the time of valuation.

(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, if material, 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 capital reserves.

(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, via the capital account;
- 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 local currency at actual exchange rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at



Notes to the Financial Statements (continued)

1. Accounting policies (continued)

the period end are reported in sterling at the rates of exchange prevailing at the period end. Any gain or loss arising from a change in exchange rates subsequent to the date of a transaction is included as an exchange gain or loss in the capital reserve.

(f) Taxation

The Company has exempt status for Jersey taxation purposes for the year of assessment 2008. Effective 1 January 2009, Jersey's tax regime will change. The new regime will impose a general corporate income tax rate of zero per cent. A 10 per cent rate will apply to certain regulated financial services companies and a 20 per cent rate will apply to utilities and income from Jersey land (i.e. rents and development profits). Jersey registered companies will be treated as resident for tax purposes and will be subject to zero per cent or ten per cent standard income tax rate.

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

(g) Capital reserve

The following are accounted for in this reserve:

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

(h) 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.

2. Income

	2008 £'000
Income from investments*	
Dividend income	1,335
Interest on fixed interest securities	8,218
	9,553
Other income†	
Deposit interest	132
Total income	9,685
Income from investments	
Listed	8,760
Unlisted	793
	9,553

*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.

Notes to the Financial Statements (continued)

3. Investment management fee

	2008 Revenue £'000	2008 Capital £'000	2008 Total £'000
Investment management fee	666	222	888

The Company's Investment Manager is CQS which in turn has delegated this function to New City Investment Managers Limited ("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 period end was £58,000.

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

4. Other expenses (including irrecoverable VAT)

	2008 Revenue £'000	2008 Capital £'000	2008 Total £'000
Secretarial and administration fees	124	–	124
Directors' fees	111	–	111
Auditors' remuneration for:			
– audit	20	–	20
– interim accounts review	4	–	4
Share Plan expenses	48	–	48
Consultancy	39	–	39
Printing	25	–	25
Bank and custody charges	24	–	24
Registrars' fees	14	–	14
Other	53	6	59
	462	6	468

The Company has an agreement with R&H Fund Services (Jersey) Limited ("R&H") to provide administrative, compliance oversight and company secretarial services to the Company. One of the Company's directors, Graeme Ross, is managing director of R&H. Under the administration agreement, the Administrator is entitled to a fixed fee of £25,000 per annum (index-linked), including the director's fee payable to Graeme Ross. Graeme Ross is also a Director of the Registrar, Computershare Investor Services (Channel Islands) Limited ("Computershare") which receives fees from the Company.

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

The total fees paid and payable under these agreements were £22,000 to R&H (excluding the Directors' fee to Graeme Ross), £14,000 to Computershare and £102,000 to F&C. No amounts were outstanding at the period end.

The remuneration of the Chairman, the highest paid Director, was at a rate of £24,750 per annum, with effect from 1 November 2007. Further details are provided in the Directors' Remuneration Report on pages 17 and 18.

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

The Company does not have any employees.



Notes to the Financial Statements (continued)

5. Interest payable and similar charges

	2008 Revenue £'000	2008 Capital £'000	2008 Total £'000
Bank loan	1,069	356	1,425

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

6. Taxation

The taxation charge for the period is comprised of:

	2008 Revenue £'000	2008 Capital £'000	2008 Total £'000
Foreign withholding tax suffered	161	–	161

The taxation on profit differs from the theoretical expense that would apply on the Company's profit before taxation using the applicable tax rate in Jersey of 20 per cent as follows:

	2008 £'000
Return on ordinary activities before taxation	1,893
Theoretical tax expense at 20 per cent	379
Effects of :	
Jersey exempt tax relief	(379)
Foreign withholding tax	161
Current period revenue tax charge	161

7. Dividends

	Register date	Payment date	2008 Revenue £'000
Amounts recognised as distributions to equity holders in the period to 30 June 2008:			
– First interim of 0.85p per ordinary share	27 July 2007	24 Aug 2007	1,077
– Second interim of 0.85p per ordinary share	2 Nov 2007	23 Nov 2007	1,077
– Third interim of 0.85p per ordinary share	1 Feb 2008	28 Feb 2008	1,106
– Fourth interim of 0.85p per ordinary share	2 May 2008	30 May 2008	1,185
			4,445
Distributions to equity holders after the period end:			
– Fifth interim dividend of 1.02p per ordinary share	1 Aug 2008	29 Aug 2008	1,422

In accordance with UK GAAP the fifth interim dividend has not been included as a liability in these accounts.

Notes to the Financial Statements (continued)

8. Return per Ordinary share

	2008 Revenue pence	2008 Capital pence	2008 Total pence
Ordinary share	5.62p	(4.29)p	1.33p

The revenue return per ordinary share is based on the net return after taxation of £7,327,000 and on 130,471,218 ordinary shares, being the weighted average number of ordinary shares in issue during the period.

The capital loss per ordinary share is based on a net capital loss of £5,595,000 and on 130,471,218 ordinary shares, being the weighted average number of ordinary shares in issue during the period.

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.

	2008 £'000
Investments listed/quoted on a recognised investment exchange	74,510
Unquoted investments	8,951
	83,461
Equity shares	4,335
Preference shares	9,604
Fixed income securities	45,871
Convertible securities	23,651
	83,461

	Listed in UK £'000	Listed overseas £'000	Unquoted £'000	Total £'000
Acquired at launch	47,034	14,621	3,533	65,188
Movements in the period:				
Purchases at cost	16,967	33,680	7,133	57,780
Sales – proceeds	(21,282)	(12,633)	(734)	(34,649)
– realised gains/(losses) on sales	(458)	1,132	(83)	591
Increase in unrealised depreciation	(3,767)	(784)	(898)	(5,449)
Closing valuation	38,494	36,016	8,951	83,461
Closing book cost	42,261	36,800	9,849	88,910
Closing unrealised depreciation	(3,767)	(784)	(898)	(5,449)
Closing valuation	38,494	36,016	8,951	83,461

During the period the Company incurred brokerage costs of £37,296 on the purchase of investments and £21,300 on the sale of investments.

	2008 £'000
Gains/(losses) on investments	
Realised gains based on historical cost	591
Increase in unrealised depreciation	(5,449)
Losses on investments	(4,858)



Notes to the Financial Statements (continued)

10. Debtors

	2008 £'000
Prepayments and accrued income	2,400

11. Creditors: amounts falling due within one year

	2008 £'000
Bank loan maturing 7 July 2008	16,000
Interest on bank loan	245
Amount due to brokers	458
Other creditors	137
	16,840

On 6 March 2007 the net assets of New City High Yield Trust plc which totalled £52,964,000 were transferred in specie to New City High Yield Fund Limited. This included an unsecured bank loan of £14 million due to Allied Irish Bank. During the period the unsecured bank loan facility was increased from £14 million to £18 million. An additional £2,000,000 was drawn down under this loan facility on 18 April 2007 and accordingly £16 million is currently outstanding.

On 7 July 2008 the bank loan was rolled forward for a further three month period at an all-in rate of 6.59 per cent.

12. Share capital

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	2008 £'000
99,022,414 ordinary shares of no par value issued on 6 March 2007	99,022,414	52,964
27,674,414 ordinary shares of no par value issued on 6 March 2007	27,674,414	15,027
3,500,000 ordinary shares of no par value issued on 18 December 2007	3,500,000	1,839
9,169,600 ordinary shares of no par value issued on 28 February 2008	9,169,600	4,733
Expenses of share issues on 18 December 2007 & 28 February 2008		(118)
Transfer to special distributable reserve		(50,993)
Total issued Share capital at 30 June 2008	139,366,428	23,452

On 6 March 2007, 99,022,414 ordinary shares were issued pursuant to the scheme for the voluntary winding up of New City High Yield Trust plc and rollover of its shareholders' interests into the Company. A further 27,674,414 ordinary shares were issued at a price of 54.3p per share pursuant to a placing and offer for subscription which raised £15 million. Dealings in these shares commenced on 7 March 2007. A further 3,500,000 ordinary shares were issued at a price of 52.55p per share pursuant to a placing on 18 December 2007 and raised £1.8 million. A further 9,169,600 ordinary shares were issued at a price of 51.61p per share pursuant to a placing on 28 February 2008 and raised £4.7 million.

The capital of the Company is managed in accordance with its investment policy, in pursuit of its investment objective, both of which are detailed in the Directors' Report on pages 9 and 10.

The Company does not have any externally imposed capital requirements.

Notes to the Financial Statements (continued)

13. Reserves

	Stated capital account £'000	Special distributable reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £000
Company					
At 17 January 2007 (date of incorporation)	-	-	-	-	-
Issue of shares attributable to rollover from New City High Yield Trust plc	52,964	-	-	-	52,964
Expenses of share issues and launch costs	(118)	(596)	-	-	(714)
Issue of shares attributable to Placings	21,599	-	-	-	21,599
Transfer to special distributable reserve	(50,993)	50,993	-	-	-
Cost of reduction in stated capital account	-	(12)	-	-	(12)
Equity dividends paid	-	-	-	(4,445)	(4,445)
Retained net profit/(loss) for the period	-	-	(5,595)	7,327	1,732
At 30 June 2008	23,452	50,385	(5,595)	2,882	71,124

On 24 May 2007, the Royal Court of the Island of Jersey confirmed that the amount standing to the credit of the Company's stated capital account be reduced by 75 per cent. This amount, being £50,993,244, has been used to create a distributable reserve in the Company's accounts. This reserve 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. Launch costs of £596,000 and legal costs of £12,000 have been written off against this reserve.

14. 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 period end calculated in accordance with their entitlements in the Articles of Association were as follows:

	Net asset value per share attributable	Net asset values attributable
	2008 pence	2008 £'000
Ordinary shares	51.03p	71,124

The basic net asset value per ordinary share is based on net assets of £71,124,000 and on 139,366,428 ordinary shares, being the number of ordinary shares in issue at the period end.

15. Reconciliation of net return before finance costs and taxation to net cash inflow from operating activities

	2008 £'000
Net return before finance costs and taxation	3,318
Losses on investments	4,858
Increase in prepayments and accrued income	(1,165)
Increase in other creditors	137
Exchange losses	153
Net cash inflow from operating activities	7,301



Notes to the Financial Statements (continued)

16. Analysis of changes in net debt

	At 17 January 2007 £'000	Transfer in specie [†] £'000	Cash Flow £'000	Currency Movements £'000	At 30 June 2008 £'000
Cash at bank and in hand	–	532	1,724	(153)	2,103
Bank loan	–	(14,000)	(2,000)	–	(16,000)
	–	(13,468)	(276)	(153)	(13,897)

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

17. Financial instruments

The Company's financial instruments comprise its investment portfolio, cash balances, bank loan, 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.

Fixed asset 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 21. The fair value of the loan is not materially different from the carrying value in the Balance Sheet.

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

- (i) market price risk, being the risk that the value of investment holdings will fluctuate as a result of changes in market prices caused by factors other than interest rate or currency rate movements;
- (ii) interest rate risk, being the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates;
- (iii) foreign currency risk, being the risk that the value of investment holdings, investment purchases, investment sales and income will fluctuate because of movements in currency rates;
- (iv) credit risk, being the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company; and
- (v) liquidity risk, being the risk that the Company may not be able to liquidate quickly its investments.

The Company held the following categories of financial instruments as at 30 June 2008:

	2008 £'000
Financial instruments	
Investment portfolio	83,461
Cash at bank	2,103
Accrued income	2,386
Prepayments	14
Financial liabilities	
Bank loan	16,000
Amounts due to brokers	458
Interest on bank loan	245
Other creditors	137

Notes to the Financial Statements (continued)

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 period and reports to the Board, which meets regularly in order to consider investment strategy.

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

If the investment portfolio valuation fell 5 per cent at 30 June 2008, the impact on the profit or loss and the net asset value would have been negative £4.2 million. Due to the effect of gearing, the impact on the net asset value per share would have been a decrease of 5.9 per cent. If the investment portfolio valuation rose by the same amount, the effect would have been equal and opposite. The calculations are based on the portfolio valuation at the balance sheet date and is not representative of the period as a whole.

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.

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 5.0 per cent at 30 June 2008.

Financial liabilities

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

At the period end, the Company had borrowings of £16,000,000 from Allied Irish Bank, details of which are contained in note 11 on page 28.



Notes to the Financial Statements (continued)

19. Interest rate risk (continued)

Fixed rate

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

	2008 £'000	2008 Weighted average average interest rate (%)	2008 Weighted average period until maturity (years)
Assets:			
Fixed income & convertible securities	69,522	8.94	5.5
Preference shares	9,604	8.85	–
Liabilities:			
Bank loan	16,000	6.59	–

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 2008 was as follows:

	2008 Investments £'000	2008 Accrued Income £'000	2008 Total £'000
Euro	11,574	362	11,936
Australian Dollar	7,842	234	8,076
US Dollar	6,542	111	6,653
Norwegian Krone	7,497	230	7,727
Canadian Dollar	6,023	174	6,197
	39,478	1,111	40,589

If the value of sterling had weakened against each of the currencies in the portfolio by 5 per cent, the impact on the profit or loss and the net asset value would have been positive £1.9 million. Due to the effect of gearing, the impact on the net asset value per share would have been an increase of 2.7 per cent. If the value of sterling had strengthened by the same amount the effect would have been equal and opposite. The calculations are based on the portfolio valuation and accrued income balances at the balance sheet date and are not representative of the period as a whole.

Notes to the Financial Statements (continued)

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:

	2008 £'000
Cash	2,103
Interest, dividends and other receivables	2,386
	4,489

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

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

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

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

There were no significant concentrations of credit risk to counterparties at 30 June 2008. No individual investment exceeded 6.7 per cent of the net assets attributable to the Company's shareholders at 30 June 2008.

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.

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

The Company maintains sufficient cash and readily realisable securities to pay accounts payable and accrued expenses.

Notes to the Financial Statements (continued)

23. Related parties

The Company has appointed CQS/New City Investment Managers Limited as its investment manager. Details of the fee arrangement are included within the Directors' Report under the heading Management and Management Fees and is disclosed in note 3.

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

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

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 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 liquidators costs will be paid to New City High Yield Fund Limited.

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

25. Post balance sheet event

Subsequent to the period end, on 18 July 2008, one of the Company's listed investments (FibreGen 8% CV 30/06/10) was suspended. At 30 June 2008 this investment was valued at £2,688,000 based on its closing bid price; however, the Board have now valued it at £480,000. This is equivalent to a write down of 1.58p per share.

Notice of Annual General Meeting

Notice is hereby given that the second Annual General Meeting of New City High Yield Fund Limited will be held at 11 a.m. at Ordnance House, 31 Pier Road, St. Helier, Jersey, JE4 8PW on Wednesday, 29 October 2008 for the following purposes:

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

Ordinary Business

1. To receive the Report of the Directors and the financial statements of the Company for the period to 30 June 2008, together with the auditors' 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-appointed as a Director.
4. That Adrian J R Collins, who retires at the Annual General Meeting be re-appointed as a Director.
5. That Graeme D Ross, who retires at the Annual General Meeting be re-appointed as a Director.
6. That KPMG Audit Plc, Chartered Accountants, be re-appointed as Auditors and that the Directors be authorised to determine their remuneration.

Special Business

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

Special Resolution

8. That, pursuant to Article 57 of the Companies (Jersey) Law 1991, the Company be generally and unconditionally authorised to make one or more market purchases of ordinary shares of no par value in the capital of the Company ("ordinary shares") provided that:
 - (i) the maximum aggregate number of ordinary shares authorised to be purchased is 20,891,020, 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; and
 - (iv) any ordinary shares to be purchased may be cancelled or held as treasury shares in accordance with the Companies (Jersey) Law, 1991, provided that the Company shall not hold as treasury shares, more than 10% of the aggregate number of ordinary shares in issue at any one time.



Notice of Annual General Meeting (continued)

- (v) this authority expires at the conclusion of the next AGM of the Company after the passing of this resolution or 15 months from the date of the passing of this resolution, whichever is earlier; and
- (vi) the Company may make a contract to purchase ordinary shares under this authority before the expiry of the authority which will or may be executed wholly or partly after the expiry of the authority, and may make a purchase of ordinary shares in pursuance of any such contract.

By Order of the Board

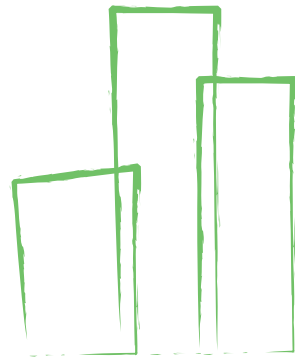
R&H Fund Services (Jersey) Limited
Company Secretary
29 September 2008

Notes:

1. A member who is entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on his/her behalf. Such a proxy need not also be a member of the Company.
2. A form of proxy is enclosed for use at the meeting. To be valid, the proxy card must be lodged with the Company's registrar, Computershare Investor Services (Channel Islands) Limited, Ordnance House, 31 Pier Road, St. Helier, Jersey, JE4 8PW at least 48 hours before the meeting.
3. Completion of the proxy card will not prevent a shareholder from attending the meeting and voting in person.
4. 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 27 October 2008, 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 27 October 2008, or in the event that the meeting is adjourned to a later time, on the register of members 48 hours before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to attend and vote at the meeting.

Corporate Information

Registered Number	95691
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 Limited CQS Cayman Limited Partnership 5th Floor 33 Grosvenor Place, London SW1X 7HY Tel: 020 7201 6900
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
Registrars	Computershare Investor Services (Channel Islands) Limited Ordnance House, 31 Pier Road St. Helier, Jersey JE4 8PW Channel Islands Tel: 01534 825230
Financial Adviser/Stockbroker	Intelli Corporate Finance Limited/Intelli Stockbrokers 63 Queen Victoria Street London EC4N 4UA
Auditors	KPMG Audit Plc 20 Castle Terrace, Edinburgh EH1 2EG
Bankers	Allied Irish Bank PLC St Helen's 1 Undershaft, London EC3A 8AB
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



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Liberation Square, Jersey