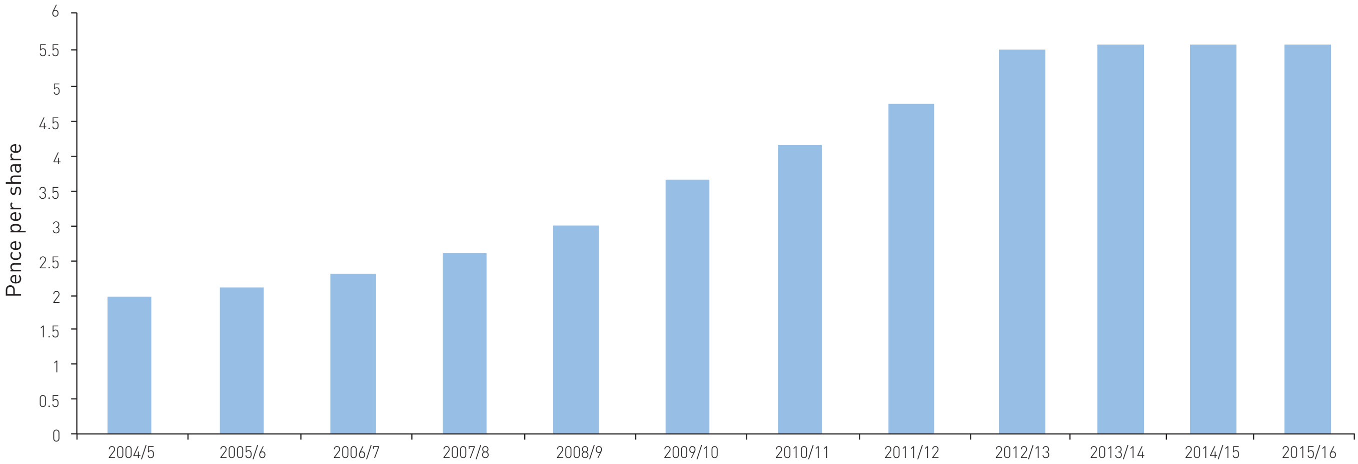
city natural resources
high yield trust plc

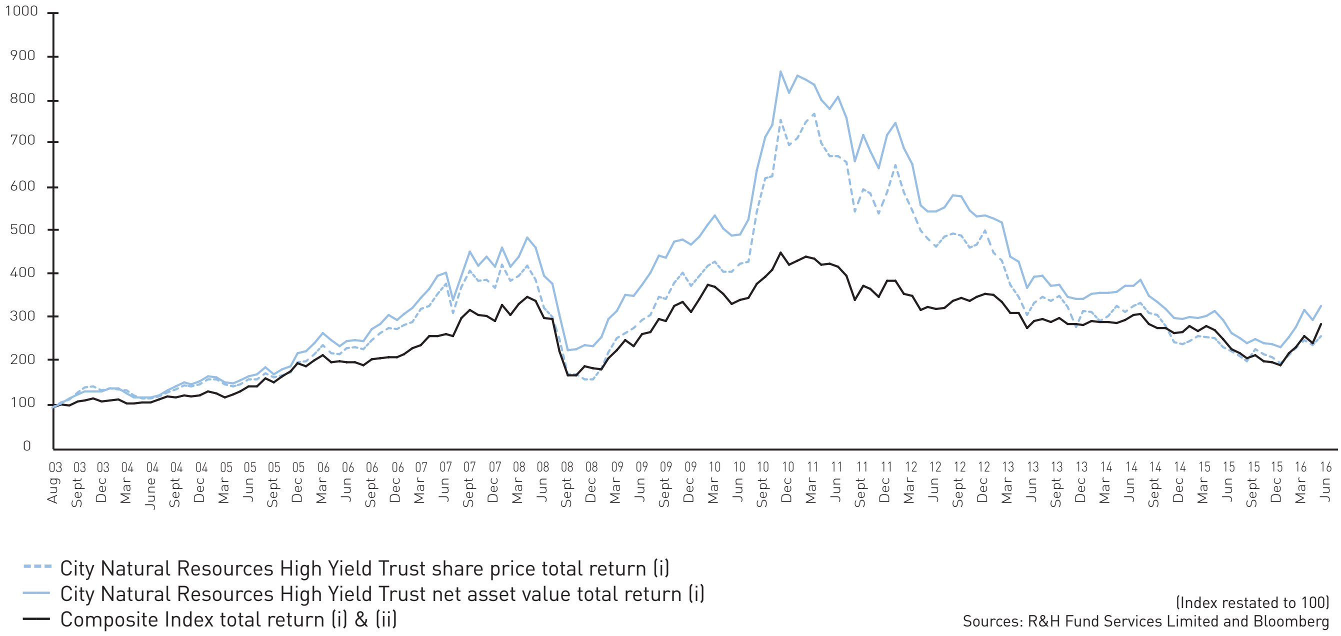



Annual Report
30 June 2016

Dividends Declared in Respect of Each Financial Year



Net Asset Value Total Return and Share Price Total Return v Composite Index Total Return



(Index restated to 100)
Sources: R&H Fund Services Limited and Bloomberg

(i) Net dividends reinvested.

(ii) Composite index of two-thirds Euromoney Global Mining Index (sterling adjusted) and one-third Credit Suisse High Yield Index (sterling adjusted).

Note: Graph starts at 1 August 2003, this being the date from which the investment objective changed.

Our Objective

To provide shareholders with capital growth and income predominantly from a portfolio of mining and resource equities and of mining, resource and industrial fixed interest securities.

Contents

Financial Highlights

Total Return*	Year to 30 June 2016	Year to 30 June 2015	Period from 1 August 2003 to 30 June 2016
Net asset value	**10.7%**	-20.9%	233.7%
Ordinary share price	**10.8%**	-24.6%	164.4%
Composite index	**14.2%**	-14.5%	193.6%
Euromoney Global Mining Index (sterling adjusted)	**13.0%**	-23.3%	184.6%
Credit Suisse High Yield Index [sterling adjusted]	**16.5%**	+8.9%	211.6%

Capital Values	30 June 2016	30 June 2015	% change period
Net asset value per share	**127.4p**	121.7p	4.7%
Ordinary share price (mid market)	**98.5p**	94.9p	3.8%
3.5% Convertible Unsecured Loan Stock ("CULS") (mid market)	**95.5p**	96.5p	(1.0)%

Revenue and Dividends	30 June 2016	30 June 2015	% change period
Earnings per ordinary share	**5.08p**	6.15p	(17.3)%
Dividends per ordinary share	**5.60p**	5.60p	–
Dividend Yield	**5.7%**	5.9%	
Discount (difference between share price and fully diluted net asset value)	**22.7%**	22.1%	
Gearing*			
Gearing provided by CULS	**20.0%**	19.0%	
Ongoing charges (as a percentage of average shareholders' funds)	**1.8%**	1.7%	

Period's Highs/Lows	Year to 30 June 2016 High	Year to 30 June 2016 Low
Net asset value	**127.4p**	87.6p
Ordinary share price (mid market)	**99.3p**	65.0p
Discount	**27.2%**	9.0%

Dividend History	Rate	xd date	Record date	Payment date
Fourth interim 2016	**3.02p**	**28 July 2016**	**29 July 2016**	**26 August 2016**
Third interim 2016	**0.86p**	**28 April 2016**	**29 April 2016**	**27 May 2016**
Second interim 2016	**0.86p**	**28 January 2016**	**29 January 2016**	**29 February 2016**
First interim 2016	**0.86p**	**29 October 2015**	**30 October 2015**	**27 November 2015**
Total	**5.60p**			
Fourth interim 2015	3.02p	30 July 2015	31 July 2015	28 August 2015
Third interim 2015	0.86p	30 April 2015	1 May 2015	29 May 2015
Second interim 2015	0.86p	29 January 2015	30 January 2015	27 February 2015
First interim 2015	0.86p	30 October 2014	31 October 2014	28 November 2014
Total	5.60p			

* A glossary of the terms used can be found on page 46.

Chairman's Statement

Introduction

During January 2016 your Company's share price fell to 65.0 pence. This proved, after more than five years, to be the low, and I am pleased to report that performance has rebounded strongly since then. Your Board greatly appreciates the patience that shareholders have displayed in waiting for this volatile asset class to stabilise after these turbulent years.

Investment and Share Price Performance

At 30 June 2016 your Company's net asset value stood at 127.4 pence per share, giving a net asset value total return for the year of 10.7 per cent. The benchmark index returned 14.2 per cent.

The story of the year is more complicated than this headline, with the Company's net asset value falling to 87.6 pence in January 2016, before beginning a rapid and sustained recovery. The net asset value stands at 141.5 pence as I write.

The Company's ordinary share price total return of 10.8 per cent for the year was virtually identical to its net asset value total return, the discount at which the Company's shares trade opening and closing the year at just over 22 per cent. The discount has since closed, and the share price stands at 116.5 pence as I write, reflecting a discount of 17.7 per cent.

Just as it has done over the last five years, your Company provides a unique exposure to the less accessible areas of mining and resource stocks. The associated and inevitable volatility that so hurt shareholders during the commodity downturn, is now benefitting them as that downturn appears to come to an end. Ian Francis, Keith Watson and Rob Crayfourd, our portfolio managers, report on investment performance in more detail below.

Over the long term, and since the redirection of the Company in 2003, the net asset value total return is 233.7 per cent, ordinary share price total return 164.4 per cent, and benchmark total return 193.6 per cent.

Discount Control

The average discount over the year to 30 June 2016 was 16.5 per cent, and over three years 14.8 per cent. Your Board is fully aware of the trend in the investment trust sector of introducing Discount Control Mechanisms (DCM). While this is completely appropriate for many companies with liquid investment portfolios our mandate, as stated in the previous paragraph, is to provide access for shareholders to less liquid areas of the resources sector. Inevitably this involves smaller companies and holdings that are not immediately realisable, which is exactly the capability of closed end investment companies.

Over the long term this policy has produced good returns and we remain committed to this strategy. However, it unsurprisingly leads to a discount being accorded to the net asset value of your Company. Were we to operate a DCM this could require the sale of our most liquid stocks, and so increased illiquidity, leading to a greater discount in the medium term. For this reason your Board aims to mitigate our discount by long term good performance.

Income and Dividends

Income and dividends have been a focus of the Company since 2004, with dividends increasing by 280 per cent since then, and we believe they contribute an important element of stability in our volatile asset class.

This year's fourth interim dividend of 3.02 pence per share brought the total dividend for the year to 5.60 pence, the same level as was paid last year. Earnings per share of 5.08 pence means that the dividend for the year was uncovered, but the Board has no qualms about utilizing revenue reserves to maintain current dividend levels, as it has done this year, so long as longer term income generation is deemed safe. The revenue reserve, which stands at 6.4 pence per share after the payment of the fourth interim dividend, has been built up against just this sort of eventuality.

The yield on the Company's shares is 4.8 per cent as I write.

Gearing and 3.5% Cumulative Unsecured Loan Stock 2018 ("CULS")

Gearing was generally maintained in the range of 20 per cent to 25 per cent of shareholders' funds during the year, 25 per cent being the upper limit allowed under the Company's investment policy. It was 20.0 per cent at the year end.

The Company had £39.9 million nominal of CULS in issue at 30 June 2015. It bought back £5.4 million nominal for cancellation during the period at a small discount to par value, benefitting shareholders at the margin. £34.5 million nominal of CULS remained in issue at 30 June 2016.

The Company's 3.5% Cumulative Unsecured Loan Stock 2018 ("CULS") mid-price declined marginally from 96.5 pence to 95.5 pence during the year.

Board Changes

One long standing Director having retired at each of the last two AGMs, and two new Directors having been appointed to replace them, the Board concluded that Shareholders' interests would not be best served by changing the Board further this year during a time of extreme volatility and also of change in the investment management team. Looking to next year, the Board has concluded that Helen Green should, with effect from the end of September, replace Richard Prickett as Chairman of the Audit Committee, a position that he has fulfilled for 10 years. Helen's qualifications and experience are ideally suited for this role. Board development will continue under consideration in the year ahead.

Auditor

KPMG LLP has been auditor to the Company since before its redirection in 2003, and the Board has decided that, in interests of good governance, the audit should now be put out to tender. It is expected that this process will be completed by the end of 2016.

Annual General Meeting

The Company's Annual General Meeting returns to Edinburgh after an absence of a number of years, and will take place at the Bonham Hotel, 35 Drumsheugh Gardens at 12.30pm on Tuesday 29 November 2016. Scotland has always been generous in its support for the Company and I hope that as many shareholders as possible, from both Scotland and further afield, will join us and take the opportunity to meet the Directors and the investment managers over a buffet lunch after the meeting.

Outlook

While the world seems no more certain a place now than it did last year, and recent global growth forecasts are not encouraging, the outlook for commodity markets has improved.

The jury remains out on China's prospects, with strongly divergent views held, but it has for the moment certainly recovered its appetite for raw materials and appears on course to deliver its much heralded 6.5% GDP growth target. The US recovery continues, albeit in subdued fashion, and Europe has proved surprisingly resilient despite a number of ongoing issues, not least the euro. The UK's local issues over Brexit dominate domestic politics, but its main impact so far as your Company is concerned was the sterling weakness which followed the result of the vote, reinforcing a performance measured in sterling terms.

The Brexit vote also gave politicians worldwide, already wary of the effects of even threatening monetary tightening, an excuse to prevaricate further; as a result, interest rates once again look likely to remain lower for longer. Central Bank stimulus has been the main intervention to prevent recession turning to depression resulting in an addiction to cheap credit, negative interest rates in some countries, and what increasingly looks like a 'bond bubble'. Real growth derived from productivity gains and raised investment levels, continues to be elusive.

The oil price remains a focus for attention, and while it has recovered, it has not recovered too much. Your Company has benefitted from its historically low energy exposure, and it has also benefitted from a historically high precious metals exposure; this is an area to which we remain committed at the present time.

When I wrote to you in March I said that we were cautiously moderating our previous defensive positioning, and this proved to be well timed. After a strong run the commodity markets have paused for breath, and may easily be subject to further volatility as a result of the factors mentioned above; but the fundamental injection of realism that the long bear market engendered gives grounds for optimism as to the durability of the recovery.

Geoff Burns
Chairman
30 September 2016

Investment Manager's Review

First Half Capitulation Unwinds

The last year has been one of the most difficult periods on record for investors, particularly so in the resources sector. Against a background of slowing growth and accentuated by over-leverage, the first half year was characterised by severe commodity price declines and extreme stock price volatility, indicative of market capitulation. Investor relief since the sector tumult at the turn of the calendar year has been palpable over the second six months across equity and debt asset classes whose performances had synchronised. Hindsight has shown that the extreme pessimism at the turn of 2016 was indeed misplaced, as discussed in our interim report, and the deflationary death spiral has subsequently unwound. Despite this challenging environment the Company's total return was up 10.5% for the year, led by the strong second half performance from the more focussed portfolio outweighing first half declines. With an emphasis on high quality assets and cash generation we believe the Company is well placed to sustain performance as investors discriminate more carefully in the next phase of the recovery cycle.

Demand Fears Overdone

China's economy, still the most important for raw material demand, experienced a strong recovery in imports as its industries restocked, boosted by extensive economic stimulus during the March quarter which, at over 4tr Yuan, was equivalent to half the level of stimulus provided in the 2008-9 crisis. Economic data has subsequently shown a broad based improvement in demand trends, in particular in infrastructure and property where strong price rises have latterly begun to feed through to higher floor space development. China appears on course to achieve its official 6.5% GDP growth target. Away from China demand growth in the US is improving while in Europe, though anaemic, it is showing signs of stability.

The implementation by Chinese authorities of measures to curb exuberant speculation bares testament to the speed of the ensuing recovery in asset prices. Though such actions have cooled short-term excesses we believe they will helpfully smooth out the improvement in underlying demand and sustain momentum, if at a more moderate pace, over the medium-term. Improved stability may encourage greater private sector investment activity which has been understandably cautious given the speed of recent change, providing us with further comfort.

Supply Growth Challenged

Balance sheet stress is now enforcing producer discipline via capex reductions, impairing the outlook for future supply growth. To date this has been most evident among major commercial mining groups, which are faced with more stringent financing terms constraining future expansion plans, which have stalled. We continue to expect return on equity and cash flow improvement, resulting from spending reductions, to be soaked up by servicing debt, limiting scope for expansion over the medium-term. Despite the recovery in commodity prices the viability of supply expansion remains pressured.

Meanwhile China's central planners, impatient at the less motivated response of domestic state owned enterprises which have benefitted from a degree of debt relief and have suffered fewer-than-expected bankruptcies, are enforcing permanent mine closures and imposing more stringent environmental standards, demonstrating a strong reform commitment as they seek to reduce uneconomic and deflationary overcapacity. As an illustration, China's authorities have ordered the closure of 500 million tonnes of domestic coal production and are drafting new rules to reduce mine pollution and drive land remediation. Such moves together with a general rise in energy prices and an easing of competitive currency devaluation, particularly by commodity exporters, is placing upward pressure on production costs, a complete reversal of trends leading into the Q1 meltdown.

Fund Positioning

The Company continues to hold an historically low weighting in energy stocks after the collapse in the oil price in November 2014, following OPEC's decision not to support pricing via cuts in production. We are becoming increasingly positive to the sector as the Oil market looks likely to balance in 2017, but any investments are reliant on them offering a better value proposition than their mining counterparts. Broadly, energy equities continue to discount oil prices above our expectation and above the US$52 per barrel level which has recently incentivised some US shale production but also appears to have elicited a resurgence of Saudi led price discounting.

The UK's relevance to broader industrial commodity demand is extremely limited and while the politically inspired Brexit vote is forefront in many UK based shareholders minds' the impact on the Company has been a more direct translation benefit to both NAV and income from its predominantly non-sterling investments. Gold has been a natural beneficiary of sterling's weakness and the Company's exposure to precious metal equities, which have been among the best performing assets year-to-date, has been extremely beneficial to performance over the last six months. The Company remains heavily weighted towards precious and industrial metals where we see better valued opportunities.

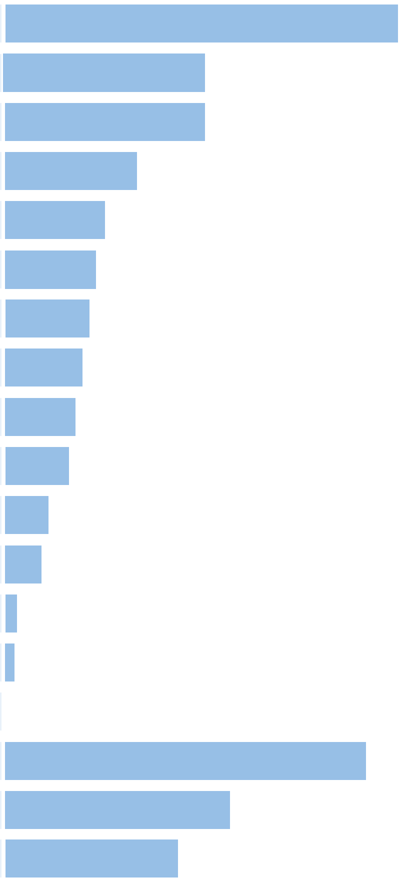
A Cash Generation Emphasis

With a focus biased towards high quality assets and cash generation, we believe the Company is well placed to sustain performance as investors discriminate more carefully in the next phase of the recovery cycle. Examples include the potential for continued re-rating of positions in First Quantum which has been able to support investment in its core growth projects through the downturn. Adherence to reform by China's planners, incorporating tighter environmental standards, provides opportunities for certain commodities such as zinc and lead, the supply of which China has until recently been self-sufficient. This is likely to sustain the performance of miners such as Trevali. The Company's exposure to agriculture should also benefit from China's increased focus on food efficacy, which is wrapped into the need for environmental reform. Farming on as much as 3.3m hectares of contaminated land, approximately 15% of China's farm acreage, has been banned indefinitely and remediation may take time to effect.

The recent larger-than-expected reduction in dividends from BW LPG, one of the largest dividend paying equities within the Fund, post the June 2016 year-end illustrates some of the challenges presented by a low interest rate and low yield environment. In this context the fixed income bond element of the portfolio remains the most substantial contributor to fund income supplemented by improving dividend cash generating prospects for many of the Company equity holdings. The majority of this non-sterling income stream has benefitted from Brexit providing further assistance to help sustain the portfolio's dividend, in addition to the Company's reserve buffer. In addition to the £4.7m of cash held by the Company at 30 June 2016, there was £11.2m of UK Treasury Stocks in the portfolio. These are held to offset the 2018 CULS liability and keep the Company's gearing within the agreed parameters. A continued emphasis on cash flow remains a key equity investment theme, one that offers the potential to sustain further capital growth and lift future equity dividend income during the next phase of a recovery cycle.

Ian Francis, Keith Watson, Rob Crayfourd
New City Investment Managers
30 September 2016

Classification of Investment Portfolio by Sector



As at 30 June	2016 % of total investments	2015 % of total investments
Gold	17.3	13.3
Copper	8.9	6.8
Base Metals	8.8	–
Agriculture	5.8	6.1
Uranium	4.4	2.2
Oil & Gas	4.0	13.1
Silver	3.7	2.9
Shipping	3.4	–
Alternative Energy	3.1	3.7
Nickel	2.8	4.8
Other mining Investments	1.9	0.5
Diamonds	1.6	2.2
Lithium	0.5	–
Palm Oil	0.4	1.2
Iron Ore	–	1.4
Fixed Interest Securities	15.9	20.6
Treasury Stock	9.9	9.8
Preference Shares	7.6	11.4
Total Investments	100.0	100.0

Classification of Investments by Stockmarket Quotation

As at 30 June	2016 % of total investments	2015 % of total investments
UK	38.6	42.5
Canada	28.5	25.7
Australia	13.8	18.8
US	8.7	1.0
Europe	6.6	8.9
Other	0.3	0.5
Unquoted	3.5	2.6
Total Investments	100.0	100.0

Investment Portfolio

as at 30 June 2016

Company	Sector	Valuation £'000	Total Investments %
First Quantum Minerals (note 1)	Copper	5,679	5.0
REA Holding (note 2)	Palm oil	4,438	3.9
Plant Impact	Agriculture	4,406	3.9
Trevali Mining	Base metals	4,064	3.6
BHP Billiton	Base metals	3,771	3.3
Greencoat UK Wind	Alternative energy	3,494	3.0
Mandalay Resources	Gold	3,022	2.7
Independence Group	Gold	3,016	2.7
PJSC MMC Norilsk Nickel	Nickel	2,643	2.3
Americas Silver (note 3)	Silver	2,496	2.2
Top ten investments		37,029	32.6
Nevsun Resources	Base metals	2,083	1.8
Troy Resources	Gold	2,072	1.8
BW LPG	Oil & gas	2,052	1.8
Central Asia Metals	Copper	1,999	1.8
Klondex Mines	Gold	1,968	1.7
Euronav (note 4)	Shipping	1,720	1.5
Fortuna Silver Mines	Silver	1,696	1.5
Nexgen Energy	Uranium	1,654	1.5
Tizir 9% 28/09/2017	Rare earth	1,583	1.4
Roxgold	Gold	1,600	1.4
Top twenty investments		55,456	48.8
Antares Energy 10% 30/10/2023 *	Oil & gas	1,555	1.4
National Westminster 9.0% NC Pref Shares Series A	Finance	1,527	1.4
Ecclesiastical Insurance 8.625% Pref Shares	Finance	1,424	1.3
Drill Rigs 6.5% 01/10/2017	Oil & gas	1,346	1.2
Occidental Petroleum	Oil & gas	1,357	1.2
Glencore	Base metals	1,299	1.1
Raven Russia 12% Pref Shares	Property	1,253	1.1
Kennady Diamonds	Diamonds	1,191	1.0
Louis Dreyfus 8.25% PERP 29/12/2049	Various	1,129	1.0
PizzaExpress Financing 8.625% 01/08/2022	Other investments	1,092	1.0
Top thirty investments		68,629	60.5
Union Agriculture Group (Placement) *	Agriculture	1,130	1.0
Metals X	Gold	1,120	1.0
Crown Resorts FRN 14/09/2072	Other investments	1,069	0.9
Trafigura Beheer 7.625% 29/10/2049 PERP CALL	Finance	1,068	0.9
Brit Insurance 6.625% 09/12/2030	Finance	977	0.9
Hudbay Minerals	Copper	965	0.9
Lloyds Banking Group 7.875% 27/06/202	Finance	942	0.8
Balfour Beatty 10.75% Pref Shares	Other investments	935	0.8
Guyana Goldfields	Gold	924	0.8
Sandfire Resources	Copper	877	0.8
Top forty investments		78,636	69.3

Notes to the Investment Portfolio are on page 10.

Company	Sector	Valuation £'000	Total Investments %
Stretford Seventy Nine 6.75% 15/07/2024	Finance	850	0.7
Bluewater Holding 10% 10/12/2019	Oil & gas	836	0.7
Elematic Oy 10% 30/05/2018 **	Oil & gas	827	0.7
La Francaise De L'Energie *	Oil & gas	832	0.7
Rio Tinto	Base metals	802	0.7
APT Pipelines FRN 30/09/2072	Oil & gas	760	0.7
Fission Uranium	Uranium	742	0.7
Pretium Resources	Gold	736	0.7
West African Resources	Gold	718	0.6
Sabina Gold & Silver	Gold	710	0.6
Top fifty investments		86,449	76.1
Matalan Finance 8.875% 01/06/2020	Finance	662	0.6
Berkeley Energia	Uranium	655	0.6
Lundin Mining	Copper	632	0.6
UR-Energy	Uranium	610	0.6
Breaker Resources	Gold	610	0.6
Mountain Province Diamonds	Diamonds	607	0.5
Frontline	Gold	605	0.5
Doray Minerals	Gold	594	0.5
Pioneer Natural Resources	Oil & gas	568	0.5
Gran Colombia Gold 6% 02/01/2020 Convertible	Gold	477	0.4
Top sixty investments		92,469	81.5
Maya Gold & Silver Conv Deb 8% 28/03/2017 *	Gold	464	0.4
St George Mining	Nickel	459	0.4
General Mining	Lithium	442	0.4
Anadarko Petroleum	Oil & gas	441	0.4
United Cacao	Agriculture	403	0.4
Denison Mines	Uranium	384	0.3
Turquoise Hill Resources	Copper	379	0.3
Oro Negro Drilling 7.5% 24/01/2019	Oil & gas	373	0.3
Foran Mining	Copper	369	0.3
Concho Resources	Oil & gas	359	0.3
Top seventy investments		96,542	85.0
Odyssey Energy	Oil & gas	342	0.3
General Exploration 11.5% 13/11/2018	Gold	294	0.3
Gryphon Minerals	Gold	294	0.3
Foresight Solar	Agriculture	291	0.2
Renaissance Minerals	Gold	265	0.2
Golden Prospect Precious Metal +	Gold	246	0.2
Gibson Energy	Oil & gas	232	0.2
Huon Aquaculture Group	Agriculture	205	0.2
Newcastle Gold	Gold	199	0.2
Kingsrose Mining	Gold	191	0.2
Top eighty investments		99,101	87.3
UK Treasury Stocks		11,235	9.9
Other investments		3,189	2.8
Total investments		113,525	100.0

Top Ten Largest Holdings

	Valuation 30 June 2015 £'000	Purchases £'000	Sales £'000	Appreciation/ (depreciation) £'000	Valuation 30 June 2016 £'000
First Quantum Minerals (note 1) The Company is an international producer and explorer of copper, gold and nickel.	–	2,943	–	2,736	5,679
REA Holding (note 2) The Company cultivate oil palms and produces crude oil palm and other palm products.	6,962	–	(965)	(1,559)	4,438
Plant Impact Manufacturer of non-toxic pesticides, fertilisers and other plant health products.	4,582	–	–	(176)	4,406
Trevali Mining Trevali produces and explores for zinc and lead in Peru.	–	2,375	–	1,689	4,064
BHP Billiton BHP Billiton is a diversified global resource producer with significant iron ore, coking coal and oil production.	–	3,885	–	(114)	3,771
Greencoat UK Wind Invests in wind farms and other renewable energy infrastructure.	3,591	–	–	(97)	3,494
Mandalay Resources The Company is a silver and gold producer and explorer with principle assets in Chile, Australia and Sweden.	1,456	714	–	852	3,022
Independence Group An Australian gold and nickel mining and exploration company.	205	3,868	(230)	(827)	3,016
PJSC MMC Norilsk Nickel The Company is a diversified producer of nickel, copper and palladium from mines located in Russia.	1,074	1,589	–	(20)	2,643
Americas Silver (note 3) The Company mines silver, zinc, lead and copper.	–	1,968	–	528	2,496
Top ten investments	17,870	17,342	(1,195)	3,012	37,029

Notes to the Investment Portfolio

Note 1 – Includes First Quantum Minerals valued at £4,919,860 and First Quantum Minerals 7.25% 15/10/2019 valued at £759,346.

Note 2 – Includes REA Holding 9% preference shares valued at £3,518,587, REA Holdings valued at £470,000 and REA Finance 8.75% 31/08/2020 valued at £450,000. REA Finance 8.75% 31/08/2020 is a Level 2 security.

Note 3 – Includes Americas Silver 10/10/2016 valued at £1,894,917 and American Silver valued at £600,781.

Note 4 – Includes Euronav USD valued at £1,032,500 and Euronav EUR valued at £687,182.

* Denotes an unquoted security
** Denotes a Level 2 security
\+ Denotes a related party investment

Strategic Review

Introduction

This review is part of the Strategic Report being presented by the Company under updated guidelines for UK-listed Companies' Annual Reports in accordance with The Companies Act 2006, and is designed to provide information primarily about the Company's business and results for the year ended 30 June 2016. It should be read in conjunction with the Chairman's Statement on pages 3 and 4 and the Investment Manager's Review on pages 5 and 6, which give a detailed review of the investment activities for the year and look to the future.

Business Model

The business model of the Company is described below.

Investment Policy

The Company invests predominantly in mining and resource equities and mining, resource and industrial fixed interest securities (including, but not limited to, preference shares, loan stocks and corporate bonds, which may be convertible and/or redeemable). The Company may invest in companies regardless of country, sector or size and the Company's portfolio is constructed without reference to the composition of any stockmarket index or benchmark. Exposure to higher yielding securities may also be obtained by investing in other sectors, including closed-end investment companies and open-ended collective investment schemes.

The Company may, but is not obliged to, invest in derivatives, financial instruments, money market instruments and currencies for the purpose of efficient portfolio management.

The Company may acquire securities that are 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 Company will not invest more than 10 per cent in aggregate of the value of its total assets (measured at the time of investment) in other investment trusts or investment companies which are listed on the Official List except that this restriction does not apply to investments in other investment trusts or investment companies which themselves have published investment policies to invest no more than 15 per cent of their total assets in other investment trusts or investment companies which are listed on the Official List.

The Company may borrow up to 25 per cent of shareholders' funds (measured at the time of drawdown).

The Investment Manager expects that the Company 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.

The Company's performance in meeting its objectives is measured against key performance indicators ('KPIs') as set out on pages 2 and 13. The primary KPI against which shareholders' returns are measured is a composite benchmark weighted two-thirds to the Euromoney Global Mining Index (sterling adjusted) and one-third to the Credit Suisse High Yield Index (sterling adjusted).

Principal Risks and Uncertainties and Risk Mitigation

Risks are inherent in the investment process, but it is important that their nature and magnitude are understood so that risks, particularly those which the Company does not wish to take, can be identified and either avoided or controlled. The Board has established a detailed framework of the key risks that the business is exposed to, with associated policies and processes devised to mitigate or manage those risks. The principal risks faced by Company are set out below.

Investment and Strategy Risk – The Board is responsible for deciding the investment strategy to fulfil the Company's objectives and monitoring the performance of the Investment Manager. Inappropriate strategy, including country and sector allocation, stock selection and the use of gearing, could lead to poor returns for shareholders. To manage this risk the Board requires the Investment Manager to provide an explanation of significant stock selection decisions and the rationale for the composition of the investment portfolio at each Board meeting, when gearing levels are also reviewed. The Board monitors the spread of investments to ensure that it is adequate to minimise the risk associated with particular countries or factors specific to particular sectors. The Investment Manager also provides the Board and shareholders with monthly factsheets which include an investment commentary.

Market Risk – The Company's assets consist principally of listed equities and fixed interest securities and its greatest risks are in consequence market-related. In addition to ordinary movements in the prices of the Company's investments and the loss that the Company might suffer through holding investments in the face of negative market movements, the Company's investment strategy necessarily amplifies this risk (see Sector Risk below). The Board seeks to mitigate this risk through the processes described in the paragraph above, monitoring the implementation and results of the investment process with the Investment Manager.

Sector Risk – The largest part of the Company's assets consist of equity-related investments in companies, usually mid-and small-cap companies, with a wide range of commodity exposures. The prices of the underlying commodities are often volatile and the companies can be located in countries at risk of political instability and vulnerable to natural disasters. The liquidity in the shares of the companies is often restricted, meaning that it can be difficult to buy or sell volumes of shares at the quoted price. The

Board seeks to mitigate this risk through the processes described in the paragraph above on Investment and Strategy Risk. In addition, the closed-ended structure of the Company is an essential part of the Board's management of this risk, ensuring that parts of the portfolio do not have to be sold to raise liquidity to fund redemptions at short notice.

Financial Risk – The Company's investment activities expose it to a variety of financial risks that include market price risk, foreign currency risk, interest rate risk and liquidity and credit risk. Further details of these risks and the ways in which they are managed are disclosed in note 18 of the financial statements.

Earnings and Dividend Risk – The earnings that underpin the amount of dividends declared and future dividend growth are generated by the Company's underlying portfolio. Fluctuations in earnings resulting from changes to the underlying portfolio, currency movements, or changes in the tax treatment of the dividends or interest received by the Company could reduce the level of dividends received by shareholders. The Board monitors and manages this risk by considering detailed income forecasts prepared by the Investment Manager and Company Secretary at each Board meeting and when the quarterly dividends are declared.

Operational Risk – The Company relies upon the services provided by third parties and is reliant on the control systems of the Investment Manager and the Company's other service providers. The security and/or maintenance of, *inter alia*, the Company's assets, dealing and settlement procedures, and accounting records depend on the effective operation of these systems. These are regularly tested and monitored and are reported on at each Board meeting. An internal control report, which includes an assessment of risks, together with the procedures to mitigate such risks, is prepared by the Investment Manager and the Company Secretary and reviewed by the Audit Committee once a year. The Depositary and Custodian, HSBC Bank plc, produces an internal control report each year which is reviewed by its auditors and gives assurance regarding the effective operation of controls. This is reviewed by the Audit Committee.

Regulatory Risk – The breach of regulatory rules could lead to a suspension of the Company's stock exchange listing or financial penalties. Breach of Sections 1158 to 1159 of the Corporation Tax Act 2010 could lead to the Company being subject to tax on chargeable gains. The Company Secretary monitors the Company's compliance with the Listing Rules of the UK Listing Authority and Sections 1158 to 1159 of the Corporation Tax Act 2010. Compliance with the principal rules is reviewed by the Directors at each Board meeting.

Viability Statement

In accordance with provision C2.2 of the 2014 revision of the UK Corporate Governance Code, the Directors have assessed the viability of the Company over a period longer than the 12 months required by the 'Going Concern' provision (this provision is detailed below). The Board conducted this viability review for a period of three years. The Board considers that this period reflects the long term objectives of the Company whilst taking into account the impact of uncertainties in the markets.

In making this statement the Board carried out a robust assessment of the principal risks facing the Company. These risks and their mitigations are set out on pages 11 and 12. The principal risks identified as most relevant to the assessment of the viability of the Company were those relating to potential under-performance of the portfolio and its effect on the ability to pay dividends.

When considering the risk of under-performance, the Board carried out a series of stress tests including the effects of any substantial future falls in investment value on the ability to re-pay and re-negotiate borrowings, potential breaches of loan covenants and the maintenance of dividend payments.

The Board also considered the impact of potential regulatory change and the controls in place surrounding significant third party providers, including the investment manager.

The Board also noted the liquidity risk in the portfolio where the percentage of Level 1 listed investments held at the year end was 83.4%.

The Convertible Unsecured Loan Stock is due to expire on 26 September 2018. This provides the Company with access to gearing and it is expected that suitable gearing facilities will continue to be in place following the expiry of the Loan Stock.

Based on the Company's processes for monitoring revenue and costs and the Manager's compliance with the investment objective and policies, the Directors have concluded that there is a reasonable expectation that the Company will be able to continue in operation and meets its liabilities as they fall due for a period of three years from the date of approval of this Report.

Going Concern

Since 2004, shareholders have been given the opportunity to vote on an ordinary resolution to continue the Company as an investment trust at each Annual General Meeting of the Company. Such a resolution has been proposed as Resolution 11 within the notice of Annual General Meeting on pages 47 and 48. If the resolution is not passed, the Board will put forward proposals to liquidate, open-end or otherwise reconstruct the Company. After making enquiries, and having considered the Company's investment objective, nature of the investment portfolio, bank facility and expenditure projections, the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, and in light of the Company's strong long term investment record, the Directors are satisfied that it is appropriate to adopt the going concern basis in preparing the accounts, notwithstanding that the Company is subject to an annual continuation vote as described above.

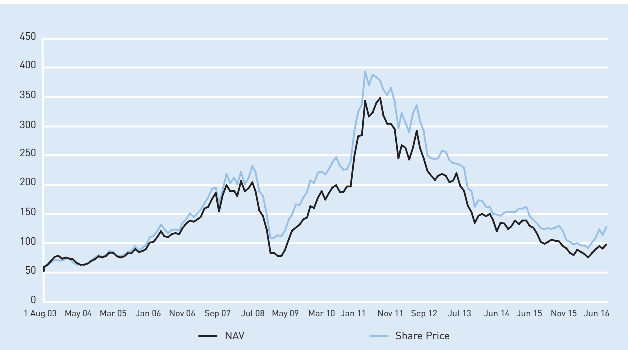
Performance Measurement and Key Performance Indicators

The Board uses a number of performance measures to assess the Company's success in meeting its objectives. The key performance indicators are as follows:

- **Performance measured against the benchmark, relevant indices and peers**
  The Board reviews and compares, at each meeting, the performance of the portfolio as well as the net asset value and share price for the Company and its benchmark, relevant indices and peers. (see inside front cover)

- **Discount/premium to net asset value ('NAV')**
  At each Board meeting, the Board monitors the level of the Company's discount/premium to NAV. The Company publishes a NAV per share figure on a daily basis, through the official newswire of the London Stock Exchange.

City Natural Resources High Yield Trust plc,
NAV vs Share Price, GBP



- **Revenue earnings and dividends per share**
  The Board reviews a revenue forecast on a quarterly basis to determine the quarterly dividend.

- **Ongoing charges**
  The ongoing charges are a measure of the total expenses incurred by the Company expressed as a percentage of the average shareholders' funds over the year. The Board regularly reviews the ongoing charges and monitors all Company expenses.

Social, Community, Employee Responsibilities and Environmental Policy

The Directors recognise that their first duty is to act in the best financial interests of the Company's shareholders and to achieve good financial returns against acceptable levels of risk, in accordance with the objectives of the Company.

In asking the Company's Investment Manager to deliver against these objectives, they have also requested that the Investment Manager take into account the broader social, ethical and environmental issues of companies within the Company's portfolio, acknowledging that companies failing to manage these issues adequately run a long term risk to the sustainability of their businesses.

More specifically, they expect companies to demonstrate ethical conduct, effective management of their stakeholder relationships, responsible management and mitigation of social and environmental impacts, as well as due regard for wider societal issues.

As an investment trust with its current structure the Company has no direct social, community, employee or environmental responsibilities of its own.

The Company has no greenhouse gas emissions to report from its operations for the year ended 30 June 2016 (as per the prior year), nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013 (including those within the underlying investment portfolio).

At 30 June 2016 there were four male Directors and one female Director. The Company has no employees so does not require to report further on gender diversity.

By order of the Board
Geoff Burns
Chairman

30 September 2016

Board of Directors and Investment Manager

All of the Directors are non-executive and all are considered by the Board to be independent of the Investment Manager. Mr Collins is a director of CQS New City High Yield Fund Limited which is also managed by the Investment Manager.

The Board fulfils the function of the Audit, Nomination and Management Engagement Committees. Mr Collins is not a member of the Audit and Management Engagement Committees.

Geoffrey Douglas Charles Burns

Chairman

Length of service: 11 years

appointed a Director on 29 June 2005 and Chairman on 29 July 2005.

Experience:
He is a director of Barnellan Equity Advice Ltd, an emerging markets private equity advisory business. He has worked in the investment fund industry for over 30 years, including 5 years as Head of Investment Trusts at Murray Johnstone Limited. He is chairman of Premier Energy and Water Trust plc, and is on the board of several other limited companies. He is a director of the Swiss Investment Fund for Emerging Markets, and an adviser to the Asian Development Bank and several other development financial institutions.

Committee membership:

Audit Committee

Management Engagement Committee

Nomination Committee

Remuneration: £25,000 per annum

All other public company directorships:

Premier Energy and Water Trust plc

PEWT Securities plc

PEWT Securities 2020 plc

Shared Directorships with any other Trust Directors: None

Shareholding in Company: 110,000 ordinary shares, 20,192 CULS

Adrian John Reginald Collins

Director

Length of service: 20 years

appointed a Director on 14 December 1995 and was Chairman between 5 March 2004 and 31 March 2005.

Experience:
He has worked in the fund management business for over 35 years, a large part of which was at Gartmore Investment Management Limited where latterly he was managing director. He is chairman of Liontrust Asset Management plc and is also on the boards of Bahamas Petroleum Company and CQS New City High Yield Fund Limited, and a number of other companies.

Committee membership:

Nomination Committee

Remuneration: £18,000 per annum

All other public company directorships:

Liontrust Asset Management plc

Bahamas Petroleum Company plc

New City High Yield Fund Limited

Tristar Resources plc

Shared Directorships with any other Trust Directors: None

Shareholding in Company: 100,000 ordinary shares, 22,434 CULS

Alun Grant Evans

Director

Length of service: 2 years

appointed a Director on 26 September 2014.

Experience:
He is a Business Development Director at Quilter Cheviot Investment Management with more than 35 years in the investment management industry. He began his career at Capel-Cure Myers moving to Carr Sheppards Crosthwaite in 1990, where he became an executive director in 1998. He joined Cheviot in 2009 with responsibility for co-ordination and development of new business.

Committee membership:

Audit Committee

Management Engagement Committee

Nomination Committee

Remuneration: £18,000 per annum

All other public company directorships: None

Shared Directorships with any other Trust Directors: None

Shareholding in Company: 10,540 ordinary shares

Helen Foster Green

Director

Length of service: 1 year

appointed a Director on 1 September 2015.

Experience:
She is a Chartered Accountant and a director of Saffery Champness, one of the UK's Top 20 accountancy practices, in Guernsey. She joined Saffery Champness in London in 1984, relocating to Guernsey in 2000.

Committee membership:

Audit Committee

Management Engagement Committee

Nomination Committee

Remuneration: £18,000 per annum

All other public company directorships:

Acorn Income Fund Limited

Aberdeen Emerging Markets Investment Company Limited

Henderson Diversified Income Fund Limited

John Laing Infrastructure Fund Limited

Landore Resources Limited

UK Mortgages Limited

Shared Directorships with any other Trust Directors:

Landore Resources Limited

Shareholding in Company: 5,500 ordinary shares

Richard Öther Prickett FCA

Director and Chairman of the Audit Committee

Length of service: 10 years
appointed a Director on 30 November 2006.

Experience:
He is a Chartered Accountant and has substantial corporate experience in the mineral sector, having been chairman of Brancote Holdings until its merger with Meridian Gold in 2002. He is currently a director of Landore Resources, an AIM traded mineral exploration company. He is also the non-executive chairman of Asian Growth Properties Limited.

Committee membership:
Audit Committee
Management Engagement Committee
Nomination Committee

Remuneration: £20,000 per annum

All other public company directorships:
Landore Resources Limited
Asian Growth Properties Limited

Shared Directorships with any other Trust Directors:
Landore Resources Limited

Shareholding in Company: 39,000 ordinary shares

Bevis Michael Leigh Coulson

Director

Length of service: 13 years
appointed a Director on 26 June 2003
retired from the Board on 26 November 2015.

Investment Manager

The Company appointed New City Investment Managers (''NCIM'') as its Investment Manager with effect from 1 April 2005. On 1 October 2007, NCIM joined the CQS Group, a global diversified asset manager running multiple strategies with, as at 1 September 2016, US$12.2 billion assets under management (including mandates with discretionary management, sub-investment discretionary management, investment advice, collateral management and intermediation), becoming a group company. NCIM's rights and obligations under the investment management agreement between the Company and NCIM were then novated to CQS Cayman Limited Partnership ('CQS'). Consequently, CQS became the Company's Investment Manager but, with the agreement of the Board, has delegated that function to NCIM.

Ian Francis, Keith Watson and Rob Crayfourd have day-to-day responsibility for managing the Company's portfolio.

Ian Francis joined the NCIM team in 2007. He has over 40 years' investment experience, primarily in the fixed interest and convertible spheres, and his career has included Collins Stewart, West LB Panmure, James Capel and Hoare Govett.

Keith Watson joined the NCIM team in 2013 from Mirabaud Securities where he was a Senior Natural Resource Analyst. Prior to Mirabaud, Keith was Director of Mining Research at Evolution Securities. Previous to this, he was a top-ranked business services analyst at Dresdner Kleinwort Wasserstein, Commerzbank and Credit Suisse/BZW. Keith began his career in 1992 as a portfolio manager and research analyst at Scottish Amicable Investment Managers. Keith has a BSc (Hons) in Applied Physics from Durham University.

Robert Crayfourd joined the NCIM team in 2011. He holds a BSc in Geological Sciences from the University of Leeds and is a CFA holder with over 12 years' experience, having previously worked for the Universities Super Annuation Scheme and HSBC Global Asset Management where he focused on the resource sector.

Alternative Investment Fund Managers Directive (AIFMD)

The Company has appointed CQS (UK) LLP, a subsidiary of CQS, as the Company's alternative investment manager "AIFM". The AIFM has received its approval from the FCA to act as AIFM of the company, your Company is therefore fully compliant. An additional requirement of the AIFMD is for the Company to appoint a depositary, which will oversee the custody and cash arrangements and other AIFMD required depositary responsibilities. The Board has appointed HSBC Bank plc to act as the Company's depositary.

As part of the process the Investment Management Agreement was updated and builds in the regulatory requirements arising as a result of the appointment of the AIFM.

Directors' Report

The Directors present their Annual Report and the audited financial statements for the year ended 30 June 2016.

Results and Dividends

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

Principal Activity and Status

The Company is registered as a public limited company in terms of the Companies Act 2006 (number: 02978531). It is an investment company as defined by Section 833 of the Companies Act 2006. It carries on the business of an investment trust and has been approved as such by HM Revenue & Customs.

The Company's shares are eligible for inclusion in a New Individual Savings Account (NISA).

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

Directors

Biographical details of the Directors, all of whom are non-executive, can be found on pages 14 and 15.

As disclosed last year, Mrs Helen Green was appointed as an independent non-executive Director on 1 September 2015 and Mr Michael Coulson retired from the Board on the 26 November 2015. There were no other changes to the composition of the Board during the year.

As explained in more detail under Corporate Governance on pages 20 to 21, the Board has agreed that all Directors will retire annually. Mr G D C Burns, Mr A J R Collins, Mr R O Prickett, Mr A G Evans, and Mrs H Green will retire at the Annual General Meeting and, being eligible, offer themselves for re-election.

The Directors believe that each of the Directors brings a significant range of business, financial and management skills and experience to the Company and enable the Board to provide effective strategic leadership and proper guidance of the Company. The Board confirms that, following the annual evaluation process set out in the Corporate Governance Statement on page 20, the performance of each of these Directors continues to be effective and demonstrates commitment to the role. The Board therefore believes that it is in the interests of shareholders that these Directors are re-elected.

Capital Structure

As at 30 June 2016 there were 66,876,768 ordinary shares of 25 pence each in issue. 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 after providing for payment of interest to holders of the 3.5% Convertible Unsecured Loan Stock 2018.

Convertible Unsecured Loan Stock 2018

On 26 September 2011 the Company issued £40,000,000 nominal of 3.5% Convertible Unsecured Loan Stock 2018 ('CULS'). As at 30 June 2015, the Company had £39,929,660 nominal of CULS in issue. On 9 October 2015, the Company issued 54 ordinary shares of 25 pence each in connection with the exercise of conversion rights by holders of £207 nominal of the Company's CULS. On 19 April 2016, the Company issued 949 ordinary shares of 25 pence each in connection with the exercise of conversion rights by holders of £3,581 nominal of the Company's CULS. During the 12 months to 30 June 2016, £5,372,000 nominal of CULS were purchased for cancellation by the Company. As at 21 September 2016 £34,553,872 nominal of the Company's CULS remains in issue.

Holders of CULS are entitled to receive interest at a rate of 3.5% per annum payable semi-annually on 31 March and 30 September in each year. Upon redemption, CULS holders are entitled to repayment of the principal amount and any outstanding interest. CULS may be converted into ordinary shares on 31 March and 30 September in each year; the conversion price is 377.1848 pence nominal of CULS for one ordinary share (subject to adjustment on the occurrence of certain events).

Substantial Interests in Share Capital

At 31 August 2016, the only persons known to the Company who, directly or indirectly, were interested in 3 per cent or more of the Company's issued share capital were as follows:

Ordinary shares	Number held	% held
Hargreaves Lansdown	10,628,676	15.9
Alliance Trust Savings	6,462,336	9.7
Barclays Stockbrokers	4,037,631	6.0
Charles Stanley	2,760,551	4.1
Investec Wealth & Investment	2,736,172	4.1
AJ Bell	2,662,359	4.0
West Yorkshire	2,650,000	4.0
TD Waterhouse	2,513,226	3.8
Self Trade	2,360,610	3.5
HSDL	2,133,935	3.2

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

Management and Management Fees

Investment management services to the Company have been delegated to CQS Cayman Limited Partnership, which in turn has delegated the management to CQS Asset Management Limited, trading as New City Investment Managers, with Ian Francis, Keith Watson and Rob Crayfourd as the investment managers.

The Board keeps under review the appropriateness of the Investment Manager's appointment. In doing so the Management Engagement Committee considers the investment performance of the Company and the capability and resources of the Investment Manager to deliver satisfactory investment performance. It also considers the length of the notice period of the investment management contract and the fees payable to the Investment Manager, together with the standard of the other services provided. The Directors are satisfied with the Investment Manager's ability to deliver satisfactory investment performance, and the quality of other services provided. It is therefore their opinion that the continuing appointment of the Investment Manager on the terms agreed is in the best interest of shareholders.

The management fee payable is 0.1 per cent per month on the Company's gross assets (excluding cross-holdings) less current liabilities and any borrowings, payable in arrears. The notice period in relation to the termination of the investment management agreement is six months by either party.

The administration of the Company has been delegated to R&H Fund Services Limited ('R&H'). A summary of the contract between the Company and R&H is given in note 4 to the financial statements.

Financial Statements

The Directors' responsibilities regarding the financial statements and safeguarding of assets are set out on page 19.

Annual General Meeting

The Notice of the Annual General Meeting is contained on pages 47 and 48.

Directors' Remuneration Policy and Report

Among the resolutions being put to the Annual General Meeting as Ordinary Business, Resolution 2 is to approve the Directors' Remuneration Policy. It is also mandatory for listed companies to put their Directors' Remuneration Report to an advisory shareholder vote, Resolution 3 seeks to approve the Directors' Remuneration Report.

Induction and Training

New Directors appointed to the Board are provided with an induction programme which is tailored to the particular circumstances of the appointee. Directors receive other relevant training as necessary.

Continuation Vote

As set out in the strategic review on page 12, Directors are required to propose an Ordinary Resolution at the forthcoming Annual General Meeting that the Company shall continue in being an investment trust. Accordingly, the Directors are proposing Resolution 11, which will be proposed as an Ordinary Resolution.

Directors' Authority to Allot Shares

The Directors are seeking authority to allot shares. Resolution 12 will, if passed, authorise the Directors to allot new shares up to an aggregate nominal amount of £1,670,247, being 9.99 per cent of the total issued shares as at 30 September 2016.

Resolution 13, which is a special resolution, will, if passed, renew the Directors' existing authority to make limited allotments of shares for cash other than according to the statutory pre-emption rights which require all shares issued for cash to be offered first to all existing shareholders up to a maximum nominal amount of £834,287 (being 4.99 per cent of the total of issued shares as at 30 September 2016). Resolution 13 also authorises the sale of treasury shares for cash without offering such shares first to all existing shareholders. These authorities will continue in effect until the conclusion of the Annual General Meeting in 2017. The Directors do not have any immediate plans to issue further ordinary shares in the Company.

Directors' Authority to Buy Back Shares

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

Resolution 14, as set out in the notice of the Annual General Meeting, seeks renewal of the Company's buy-back authority. The renewed authority to make market purchases will be in respect of a maximum of 14.99 per cent of the issued ordinary shares of the Company on the date of the passing of the resolution (approximately 10.0 million ordinary shares). The price paid for the shares will not be less than the nominal value of 25p per share nor more than the higher of (i) 5 per cent above the average middle market value of those shares for the five business days before the shares are purchased and (ii) the higher of the last independent trade and the highest current bid on the London Stock Exchange. This power will only be exercised if, in the opinion of the Directors, a purchase would result in an increase in net asset value per share and be in the interests of the shareholders as a whole. Any shares purchased under this authority will be cancelled or held in treasury. The Directors have no current intention of utilising this authority. This authority will expire at the conclusion of the Annual General Meeting of the Company in 2017.

Notice of Meeting

Resolution 15, which is a Special Resolution, will be proposed to authorise the Directors to call general meetings of the Company (other than Annual General Meetings), on 14 clear days' notice as permitted by the Companies Act 2006 and as amended by the Companies (Shareholders' Rights) Regulations 2009. The

Company will also need to meet the Companies Act 2006 requirements for electronic voting before it may call a general meeting on 14 clear days' notice. The Directors confirm that, in the event that a general meeting is called, they will give as much notice as is practicable and will only utilise the authority granted by Resolution 15 in limited and time sensitive circumstances.

Statement Regarding Annual Report and Accounts

Following a detailed review of the Annual Report and Accounts by the Audit Committee, the Directors consider that taken as a whole it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. In reaching this conclusion, the Directors have assumed that the reader of the Annual Report and Accounts would have a reasonable level of knowledge of the investment industry in general and investment trusts in particular.

Disclosure of Information to the Auditor

The Directors confirm that, so far as each of the Directors is aware, there is no relevant information of which the Company's auditors are unaware and the Directors have taken all the steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent Auditors

KPMG LLP have been auditor to the Company since before its redirection in 2003, and the Board has decided that, in the interest of good governance, the audit should now be put out to tender. The level of audit remuneration will be authorised by the Directors as part of the tender process.

Dividend Policy

Subject to market conditions and the Company's performance, financial position and financial outlook, it is the Directors' intention to pay an attractive level of dividend income to Shareholders on a quarterly basis. The Company intends to continue to pay all dividends as interim dividends. A resolution to approve this dividend policy will be proposed at the Annual General Meeting ('AGM').

Recommendation

The Directors consider the passing of the resolutions to be proposed at the Annual General Meeting to be in the best interests of the Company and its shareholders as a whole and likely to promote the success of the Company for the benefit of its shareholders as a whole. Accordingly, the Directors unanimously recommend that shareholders should vote in favour of the resolutions, as they intend to do in respect of their own beneficial shareholdings amounting to 265,040 ordinary shares.

By Order of the Board

Geoff Burns
Chairman

30 September 2016

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards including FRS 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland.

Under company law the Directors must not approve the financial statements unless they are satisfied that they 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. 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 adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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 Statement of Corporate Governance that comply with that law and those regulations. The financial statements are published on www.ncim.co.uk which is a website maintained by the Company's Investment Manager. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with UK GAAP, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company;
- that in the opinion of the Directors, the Annual Report and Accounts taken as whole, is fair, balanced and understandable and it provides the information necessary to assess the Company's performance, business model and strategy; and
- the Strategic Report includes fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that the Company faces.

On behalf of the Board

Geoff Burns
Chairman

30 September 2016

Statement of Corporate Governance

Introduction

The UK Listing Authority requires all listed companies to describe how they have complied with the principles of the UK Corporate Governance Code published in September 2014 (the "Governance Code"), which is available on the Financial Reporting Council's website: www.frc.org.uk. The Governance Code covers in particular the annual re-appointment of Directors, Board diversity, external evaluation, the Board's responsibilities in relation to risk, and a clear explanation of business model and strategy.

The Association of Investment Companies has also published a Code of Corporate Governance ("AIC Code") and a Corporate Governance Guide for Investment Companies ("AIC Guide") which are available on the AIC's website: www.theaic.co.uk. The AIC Code, as explained by the AIC Guide, addresses all of the principles set out in Section 1 of the Governance Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to investment companies.

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

Application of the Principles of the Codes

The Company has complied with the provisions of the AIC Code and the Governance Code, except for the Governance Code provisions relating to:

- The role of the chief executive (A 1.2)
- Executive directors' remuneration (D.1.1 and D.1.2)
- The need for an internal audit function (C.3.6)

As indicated by the AIC Code the above exceptions are not believed to be applicable to an externally managed investment company.

The Board

The Board consists solely of non-executive Directors. Mr Burns is Chairman and is responsible for leadership of the Board and ensuring its effectiveness on all aspects of its role. Given the size and composition of the Board it is not felt necessary to appoint a Senior Independent Director. All Directors are considered by the Board to be independent of the Investment Manager. Each of these Directors is independent in character and judgement and, Mr Collins' directorship of CQS New City High Yield Fund Limited notwithstanding, there are no relationships, or circumstances which the Board considers likely to affect the judgement of the independent Directors. Mr Collins is not regarded as independent by the AIC Code. New Directors receive an induction from the Company Secretary on joining the Board, and all Directors receive other relevant training as necessary.

The Board takes the view that independence is not compromised by length of tenure and that experience and continuity can add significantly to the Board's strength.

During the year ended 30 June 2016 the Board met 4 times. In addition, there were 2 Audit Committee meetings, 1 Management Engagement Committee meeting, 2 Nomination Committee meetings and 7 other ad hoc Committee meetings (to approve dividends and the Half Yearly and Annual Reports). Between meetings the Board maintains regular contact with the Investment Manager.

Directors have attended Board and Committee meetings during the year ended 30 June 2016 as follows (with their eligibility to attend the relevant meeting in brackets):

	Board meetings	Nomination Committee meetings	Management Engagement Committee meetings	Audit Committee meetings
G D C Burns (Chairman)	4 (4)	2 (2)	1 (1)	2 (2)
A J R Collins	4 (4)	2 (2)	0 (0)	0 (0)
A G Evans	4 (4)	2 (2)	1 (1)	2 (2)
H F Green	4 (4)	2 (2)	1 (1)	2 (2)
R Ö Prickett	4 (4)	2 (2)	1 (1)	2 (2)
B M L Coulson*	2 (2)	1 (1)	1 (1)	1 (1)

*retired on 26 November 2015

The Board has a schedule of matters reserved to it for decision and the requirement for Board approval on these matters is communicated directly to the senior staff of the Investment Manager. Such matters include strategy, borrowings, treasury and dividend policy. Full and timely information is provided to the Board to enable the Directors to function effectively and to discharge their responsibilities. The Board also reviews the financial statements, performance and revenue budgets.

The Board has put in place necessary procedures to conduct, on an annual basis, an appraisal of the Chairman of the Board as well as a performance evaluation of the Board as a whole, the individual Directors and the Board Committees. This was conducted through a forum based assessment process. The Chairman regularly reviews and agrees with each Director their training and development needs. The annual evaluation of the Board and the Directors has been completed and the Directors have concluded that the Board continues to function effectively and individually.

The Board has reviewed the Chairman's and Directors' other commitments and is satisfied that the Chairman and other Directors are capable of devoting sufficient time to the Company.

There is an agreed procedure for Directors to take independent professional advice if necessary and at the Company's expense. This is in addition to the access which every Director has to the advice and services of the Company Secretary, R & H Fund Services Limited, which is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

Management Engagement Committee

A separate Management Engagement Committee, which is chaired by Mr Burns and comprises the full Board, excluding Mr Collins, has been established. The Management Engagement Committee annually reviews matters concerning the management contract which exists between the Company and the Investment Manager. Details of the Management Agreement are shown in note 3 to the financial statements.

Nomination Committee

Appointments to the Board of Directors are considered by the Nominations Committee which is chaired by Mr Burns and comprises the full Board. Possible new Directors are identified against the requirements of the Company's business and the need to have a balanced Board. The Terms of Reference of the Nomination Committee are available on request. External search consultants may be used to assist in the appointment of new Directors should it be considered expedient. Every Director is entitled to receive appropriate training as deemed necessary. A Director appointed during the year is required, under the provisions of the Company's Articles of Association, to retire and seek election by shareholders at the next Annual General Meeting. In 2011, the Board decided that all Directors would retire annually and, if appropriate, seek re-election.

As part of this process the Board concluded a new Director with complimentary skills should be recruited. As a result Mrs Green was appointed on the 1 September 2015.

Stewardship Code

The Financial Reporting Council ("FRC") published "The UK Stewardship Code" ("Code") for institutional shareholders in September 2012. The purpose of the Code is to enhance the quality of engagement between institutional investors and companies to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities.

The FRC is encouraging institutional investors to make a statement of their commitment to the Code.

The Board has delegated responsibility for actively monitoring the activities of investee companies to the Investment Manager. The Investment Manager is responsible for reviewing, on a regular basis, the annual reports, circulars and other publications produced by the investee company, and for attending company meetings. The Investment Manager, in the absence of explicit instruction from the Board, is empowered to use discretion in the exercise of the Company's voting rights.

The Investment Manager's policy is to assess each voting opportunity individually and to vote only in cases where it is believed that the Company's best interests need to be protected. The Board has reviewed, and endorses, the Investment Manager's Statement of Compliance with the Code, which appears on the Investment Manager's website, at www.ncim.co.uk

The Board receives reports from the Manager on the exercise by the Investment Manager of the Company's voting rights.

Exercise of Voting Powers

The Investment Manager, in the absence of explicit instruction from the Board, is empowered to exercise discretion in the use of the Company's voting rights in respect of investee companies. The underlying aim of exercising such voting rights is to protect the return from an investment.

Relations with Shareholders

The Directors place a great deal of importance on communication with shareholders. The Annual Report and Accounts are widely distributed to other parties who have an interest in the Company's performance. Shareholders and investors may obtain up to date information on the Company through the Investment Manager's website. The Company responds to letters from shareholders on a wide range of issues.

A regular dialogue is maintained with the Company's institutional shareholders and with private client asset managers. Reference to significant holdings in the Company's ordinary shares can be found under "Substantial Interests in Share Capital" on page 16.

The Notice of the Annual General Meeting included within the Annual Report and Accounts is sent out 20 working days in advance of the meeting. All shareholders have the opportunity to put questions to the Board or Manager, either formally at the Company's Annual General Meeting or at the subsequent buffet luncheon for shareholders. The Company Secretary is available to answer general shareholder queries at any time throughout the year.

By Order of the Board

R&H Fund Services Limited
Secretaries

30 September 2016

Report of the Audit Committee

Composition of the Audit Committee

- An Audit Committee has been established with written terms of reference and comprises four non-executive Directors, Mr R Ö Prickett (Chairman), Mr G D C Burns, Mr A G Evans and Mrs H F Green. Mrs H F Green will assume the role of Chairman of the Audit Committee in October 2016. The Audit Committee members have recent and relevant financial experience. The terms of reference of the Audit Committee are reviewed and re-assessed for their adequacy on an annual basis and are disclosed on the Company's website. Further copies are available on request.

Role of the Audit Committee

A summary of the Committee's main audit review functions is shown below:

- to review and monitor the internal control systems and risk management systems on which the Company is reliant;
- to consider annually whether there is a need for the Company to have its own internal audit function;
- to monitor the integrity of the interim and annual financial statements of the Company by reviewing, and challenging where necessary, the actions and judgements of the Manager and Administrators;
- to meet with the external Auditor, KPMG LLP ("KPMG") to review their proposed audit programme of work and their findings. The Board shall also use this as an opportunity to assess the effectiveness of the audit process;
- to develop and implement policy on the engagement of the external Auditor to supply non-audit services;
- to review an annual statement from the Investment Manager and Administrator detailing the arrangements in place whereby the staff of the Investment Manager and of the Administrator may, in confidence, escalate concerns about possible improprieties in matters of financial reporting or other matters;
- to make recommendations in relation to the appointment of the external Auditor and to approve the remuneration and terms of engagement of the external Auditor; and,
- to monitor and review annually the external Auditor's independence, objectivity, effectiveness, resources and qualification.

Annual Report and Financial Statements

The Board of Directors are responsible for preparing the Annual Report and financial statements. The Audit Committee advises the Board on the form and content of the Annual Report and financial statements, any issues which may arise and any specific areas which require judgement.

Auditor

As part of its review of the scope and results of the audit, during the year the Audit Committee considered and approved KPMG's plan for the audit of the financial statements for the year ended 30 June 2016. At the conclusion of the audit KPMG did not highlight any issues to the Audit Committee which would cause it to qualify its audit report nor did it highlight any fundamental internal control weaknesses. KPMG issued an unqualified audit report which is included on pages 26 and 27.

In relation to the provision of non-audit services by the Auditor it has been agreed that all non-audit work to be carried out by the Auditor must be approved in advance by the Audit Committee and any special projects must also be approved in advance. KPMG provided tax services for the Company during the year. The Audit Committee does not consider that the provision of such non-audit services is a threat to the objectivity and independence of the conduct of the audit.

As part of the review of auditor independence and effectiveness, KPMG has confirmed that it is independent of the Company and has complied with relevant auditing standards. In evaluating KPMG, the Audit Committee has taken into consideration the standing, skills and experience of the firm and the audit team. The Audit Committee, from direct observation and enquiry of the Investment Manager and Administrator, remains satisfied that KPMG continues to provide effective independent challenge in carrying out its responsibilities.

Following professional guidelines, the audit partner rotates after five years. The audit director is in his second year of appointment. KPMG LLP has been auditor to the Company since before its redirection in 2003, and the Board has decided that, in interest of good governance, the audit should now be put up for tender. It is expected that this process will be completed by the end of 2016.

Following a discussion with the Auditor and the Investment Manager, the Audit Committee considers the main risks within the financial statements to be the valuation and ownership of quoted and unquoted investments held by the Company.

In order to address this the Company has appointed an Investment Manager and Custodian with clearly defined contracts and any breaches of these, or any law or regulation that the Company is required to comply with, are reported to the Board. The Board receives regular updates from the Investment Manager on the valuation of unquoted investments and assess the information provided in establishing the valuations used within the net asset value. The Company also receives regular reporting on internal controls (as set out on page 23).

As part of the annual audit, the Auditor has validated the existence of all securities held by the Company to the records maintained by the Custodian. The Auditor has agreed the valuation of all of the quoted investments in the portfolio to independent pricing providers. In respect of the unquoted securities, the Auditor has reviewed the basis and justification for the carrying values established by the Investment Manager and approved by the Board. The Auditor also highlighted the accounting and treatment of the CULS and income recognition as other areas of focus considered within the audit. The Auditor has reviewed these and has not reported any exceptions.

Internal Controls

The Board is ultimately responsible for the Company's system of internal control and for reviewing its effectiveness. Following publication of the Financial Reporting Council's "Internal Control: Revised Guidance for Directors on the Combined Code" (the "FRC guidance") the Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This process has been in place for the year under review and up to the date of approval of this Annual Report and is regularly reviewed by the Board and accords with the FRC Guidance.

The Board has reviewed the effectiveness of the system of internal control. In particular, it has reviewed and updated the process for identifying and evaluating the significant risks affecting the Company and policies by which these risks are managed. The significant risks faced by the Company are as follows:

- financial;
- operational; and
- compliance.

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

- R&H Fund Services Limited ("R&H") as Company Secretary and Administrator and R&H together with the Investment Manager 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 on these issues, including performance statistics and investment valuations, are regularly submitted to the Board and there are meetings with the Investment Manager as appropriate;
- as a matter of course the Investment Manager's compliance department continually reviews the Investment Manager's operations and reports to the Board on a quarterly basis;
- written agreements are in place which specifically define the roles and responsibilities of the Investment Manager, Administrator and other third party service providers;
- the Board has considered the need for an internal audit function but, because of the compliance and internal control systems in place at the Investment Manager and the Administrator, has decided to place reliance on the Investment Manager's and the Administrator's systems and internal audit procedures.

At its September meeting, the Audit Committee carried out an annual assessment of internal controls for the year ended 30 June 2016 by considering documentation from the Investment Manager and the Administrator, including the internal audit and compliance functions and taking account of events since 30 June 2016. The results of the assessment were then reported to the Board at the next Board meeting.

Internal control systems are designed to meet the Company's particular needs and the risks to which it is exposed. Accordingly, the internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and by their nature can only provide reasonable and not absolute assurance against mis-statement and loss.

The principal risks and uncertainties affecting the Company are disclosed on pages 11 and 12.

Richard Prickett FCA

Chairman of Audit Committee

30 September 2016

Directors' Remuneration Report

Remuneration Committee

Under the UK Listing Rules, where an investment company has only non-executive directors, the Governance Code principles relating to directors' remuneration do not apply. The full Board acts as the Remuneration Committee whose Chairman is the Chairman of the Company.

The remuneration of the Directors has been set in order to attract individuals of a calibre appropriate to the future development of the Company. The Company's policy on Directors' remuneration, together with details of the remuneration of each Director, is shown below.

The Board has prepared this report in accordance with the requirements of Section 421 of the Companies Act 2006. An ordinary resolution for the approval of this Report will be put to the members at the forthcoming Annual General Meeting. As the Board of Directors is comprised solely of non-executive Directors, it is exempt under the Listing Rules from appointing a Remuneration Committee. The determination of the Directors' fees is a matter dealt with by the whole Board. This Report has been divided into separate sections for unaudited and audited information.

Directors' Remuneration Policy

The Board's policy is that the remuneration of Directors should reflect the experience of the Board as a whole, be fair and comparable to that of other relevant investment trusts 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 2016 and subsequent years.

The fees for the non-executive Directors are determined within the limits set out in the Company's Articles of Association. The present limit is £125,000 per annum in aggregate and the approval of shareholders in a general meeting would be required to change this limit. At the prevailing level of Directors' fees the aggregate amount paid to the Company's Directors during the year to 30 June 2016 was £101,000. Non-executive Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits.

Directors' and Officers' liability insurance cover is maintained by the Company on behalf of the Directors.

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

The terms of Directors' appointments provide that Directors should retire and be subject to election at the first Annual General Meeting after their appointment. Directors are obliged to retire by rotation, and to offer themselves for re-election by shareholders at least every three years after that. Any Director who has served on the Board for more than nine years will offer himself for re-election annually. However, the Board has agreed that all Directors will retire annually and, if appropriate, seek re-election. The requirements for the retirement of Directors are also contained in the Company's Articles of Association. There is no notice period and no provision for compensation upon early termination of appointment.

Director	Date of Appointment	Due date for Re-election
G D C Burns	29 June 2005	AGM 2016
A J R Collins	14 December 1995	AGM 2016
A G Evans	26 September 2014	AGM 2016
H F Green	1 September 2015	AGM 2016
R Ö Prickett	30 November 2006	AGM 2016

Annual Report on Directors' Remuneration

Directors' Emoluments (audited)

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

	2016 £'000	2015 £'000
G D C Burns*	25	25
R Ö Prickett**††	20	20
A J R Collins†	18	18
A G Evans	18	13
H F Green	15	–
B M L Coulson***	5	18
Totals	101	94

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

* Chairman.

** Chairman of the Audit Committee.

*** Mr Coulson retired from the Board on the 26 November 2015.

† Fees paid to Fincorp International Ltd.

†† Fees paid to European Sales Company Ltd.

Relative Importance of Spend on Pay

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

Directors' Interests

Biographies of the Directors are shown on pages 14 and 15.

The interests (all of which were beneficial) of the Directors who held office at the year-end in the shares of the Company were:

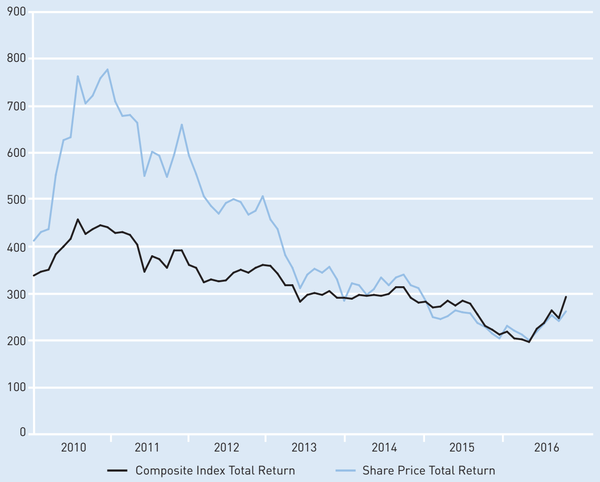
	Ordinary shares		CULS	
	2016	2015	2016	2015
G D C Burns	110,000	90,000	20,192	20,192
A J R Collins	100,000	50,000	22,434	22,434
R Ö Prickett	39,000	12,500	–	–
A G Evans	10,540	5,000	–	–
H F Green	5,500	–	–	–

There has been no change in the ordinary share or CULS holdings of the Directors between 30 June 2016 and 30 September 2016.

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 16. The graph below compares for the six years to 30 June 2016 the share price total return (assuming all dividends are reinvested) to ordinary shareholders compared to the total shareholder return on a notional investment made up of shares of the same kinds and number as those by reference to which a composite index, weighted as to two-thirds Euromoney Global Mining Index (sterling adjusted) and one-third Credit Suisse High Yield Index (sterling adjusted), is calculated. This composite index was chosen as it represents a comparable mix of mining and resource equities and fixed interest securities.

Share Price Total Return and the Composite Index Performance Graph



Voting at Annual General Meeting

At the Company's last Annual General Meeting, held on 26 November 2015, shareholders approved the Directors' Remuneration Policy and the Directors' Remuneration Report in respect of the year ended 30 June 2015. 99.4% of votes were in favour of the resolutions and 0.6% were against.

An ordinary resolution for the approval of the Annual Report on Directors' Remuneration will be put to an advisory shareholder vote at the forthcoming Annual General Meeting.

An ordinary resolution for the approval of the Directors' Remuneration Policy will be put to a binding shareholder vote at the forthcoming Annual General Meeting.

Approval

The Directors' Remuneration Report on pages 24 and 25 was approved by the Board of Directors and signed on its behalf on 30 September 2016.

Geoff Burns
Chairman

Independent Auditor's Report to the Members of City Natural Resources High Yield Trust plc Only

Opinions and conclusions arising from our audit

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of City Natural Resources High Yield Trust PLC for the year ended 30 June 2016 set out on pages 28 to 45. In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Accounting Standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit was as follows (unchanged from 2015):

Valuation of unquoted equity investments £3.98m (2015: £2.77m) Risk vs 2015 [◄►]*

Refer to pages 22 and 23 (Report of the Audit Committee), page 31 (accounting policy) and pages 36 to 37 (financial disclosures).

The risk: The Company's portfolio of unquoted investments, where no quoted market price is available, makes up 3.4% (2015: 2.3%) of the Company's total assets (by value). Unquoted investments are measured at fair value, which is established in accordance with the International Private Equity and Venture Capital Valuation Guidelines by using measurements of value such as price of recent orderly transactions, earnings multiples and net assets. Although the unquoted investments portfolio reflects only 3.4% of the Company's total assets, the value in 2016 is driven by a smaller number of individual investments, compared with 2015, and given the subjective nature of the valuations, an error in the valuation of one such investment could result in a material misstatement.

Our response: Our procedures over the completeness, valuation and existence of the Company's quoted investment portfolio included, but were not limited to:

- documenting and assessing the design and implementation of the valuation processes controls in place to value the portfolio;
- discussion with the investment manager to assess their review of the investment valuations and review of the Valuation Committee minutes for justification of the valuation approach;
- assessment of investment realisations in the period, comparing actual sales proceeds to prior year and valuations to understanding the reasons for significant variances and determine whether they are indicative of bias or error in the company's approach to valuations;
- challenge the investment manager on key judgments affecting investee company valuations in the context of observed industry best practice and the provisions of the International Private Equity and Venture Capital Valuation Guidelines. We challenged the appropriateness of the valuation bases selected as well as the underlying assumptions identified in the Manager's Valuation Committee minutes. We compared key underlying financial data inputs to external sources, investee company audited accounts and management information as applicable. We challenged the assumptions around sustainability of earnings based on the plans of the investee companies and whether these are achievable, and we obtained an understanding of existing and prospective investee company cash flows to understand whether borrowings can be serviced or whether refinancing may be required. Our work included consideration of events which occurred subsequent to the year end up until the date of this audit report;
- attending the year-end Audit Committee meeting where we assessed the effectiveness of the Audit Committee's challenge and approval of unquoted investment valuations; and
- consideration of the appropriateness, in accordance with relevant accounting standards, of the disclosures in respect of unquoted investments and the effect of changing one or more inputs to reasonably possible alternative valuation assumptions

Valuation of quoted equity investments £109.5m (2015: £104.5m) Risk vs 2015 [◄►]*

Refer to pages 22 and 23 (Report of the Audit Committee), page 31 (accounting policy) and pages 36 and 37 (financial disclosures).

The risk: The Company's portfolio of quoted investments makes up 92% (2015: 87%) of the Company's total assets (by value) and is considered to be the key driver of the Company's operations and performance results. We do not consider these investments to be at high risk of significant misstatement, or to be subject to a significant level of judgement because they comprise liquid, quoted investments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be one of the areas which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.

Our response: Our procedures over the completeness, valuation and existence of the Company's quoted investment portfolio included, but were not limited to:

- documenting and assessing the processes in place to record investment transactions and to value the portfolio;
- agreeing the valuation of 100% of investments in the portfolio to externally quoted prices; and
- agreeing 100% of investment holdings in the portfolio to independently received third party confirmations.

*No change in risk compared to the prior year.

3. Our application of materiality and an overview of the scope of our audit

The materiality for the financial statements as a whole was set at £1,188,000 (2015: £1,199,000), determined with reference to a benchmark of Total Assets (of which it represents 1% (2015: 1%)).

We agree with the Audit Committee to report to it any corrected and uncorrected identified misstatements exceeding £59,000 (2015: £60,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above.

4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

5. We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the directors' Viability Statement on page 12 within the Strategic Review, concerning the principal risks, their management, and, based on that, the directors' assessment and expectations of the company's continuing in operation over the three years to date; or
- the disclosures in Note 1 of the financial statements concerning the use of the going concern basis of accounting.

6. We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy; or
- the Statement of Corporate Governance does not appropriately address matters communicated by us to the audit committee.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance Statement has not been prepared by the company.

Under the Listing Rules we are required to review:

- the Directors' statements, set out on pages 12, in relation to going concern and longer-term viability; and
- the part of the Corporate Governance Statement on pages 20 and 21 relating to the company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

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

Scope of report and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 19, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at **www.frc.org.uk/auditscopeukprivate**. This report is made solely to the company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at **www.kpmg.com/uk/auditscopeukco2014a**, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

John Waterson
Senior Statutory Auditor

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
20 Castle Terrace
Edinburgh
EH1 2EG

30 September 2016

Income Statement

	Notes	Year ended 30 June 2016 Revenue £'000	Capital £'000	Total £'000	Year ended 30 June 2015 Revenue £'000	Capital £'000	Total £'000
Gains/(losses) on investments	9	–	6,814	6,814	–	(23,454)	(23,454)
Exchange gains/(losses)		–	31	31	–	(117)	(117)
Income	2	4,837	–	4,837	5,839	–	5,839
Investment management fee	3	(214)	(642)	(856)	(274)	(821)	(1,095)
Other expenses	4	(455)	–	(455)	(483)	–	(483)
Net return before finance costs and taxation		**4,168**	**6,203**	**10,371**	**5,082**	**(24,392)**	**(19,310)**
Interest payable and similar charges	5	(318)	(1,769)	(2,087)	(375)	(1,869)	(2,244)
Net return on ordinary activities before taxation		**3,850**	**4,434**	**8,284**	**4,707**	**(26,261)**	**(21,554)**
Tax on ordinary activities	6	(451)	195	(256)	(592)	350	(242)
Net return attributable to equity shareholders		**3,399**	**4,629**	**8,028**	**4,115**	**(25,911)**	**(21,796)**
Return per ordinary share	8	**5.08p**	**6.92p**	**12.00p**	**6.15p**	**(38.75)p**	**(32.60)p**

The 'total' column of this statement represents the Company's profit and loss account, prepared in accordance with UK GAAP.
All revenue and capital items in this statement derive from continuing operations. All of the profit/(loss) for the year is attributable to the owners of the Company
No operations were acquired or discontinued in the year.
A Statement of Total Recognised Gains and Losses is not required as all gains and losses of the Company have been reflected in the above Income Statement.
The accompanying notes are an integral part of the financial statements.

Balance Sheet

	Notes	As at 30 June 2016 £'000	As at 30 June 2015 £'000
Fixed assets			
Investments	9	113,525	107,229
Current assets			
Debtors	10	576	1,332
Cash at bank and on deposit		4,738	11,333
		5,314	**12,665**
Creditors: amounts falling due within one year	11	**(627)**	**(1,226)**
Net current assets		**4,687**	**11,439**
3.5% Convertible Unsecured Loan Stock 2018	12	**(33,025)**	**(37,270)**
Net assets		**85,187**	**81,398**
Capital and reserves			
Called-up share capital	13	16,719	16,719
Special distributable reserve	14	30,386	30,386
Share premium	14	4,810	4,806
Equity component of 3.5% Convertible Unsecured Loan Stock 2018	12/14	1,213	2,248
Capital reserve	14	25,734	20,568
Revenue reserve	14	6,325	6,671
Equity shareholders' funds		**85,187**	**81,398**
Net asset value per share	15	**127.38p**	**121.72p**

The financial statements on pages 28 to 45 were approved by the Board of Directors and authorised for issue on 30 September 2016 and were signed on its behalf by:

Geoff Burns
Chairman

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

Statement of Changes in Equity

for the year to 30 June 2016

	Share capital £'000	Share premium account £'000	Special distributable reserve £'000	CULS Equity Component £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance at 30 June 2015	16,719	4,806	30,386	2,248	20,568	6,671	81,398
CULS conversion and buyback	–	4	–	(1,035)	724	–	(307)
Return on ordinary activities after taxation	–	–	–	–	4,629	3,399	8,028
Effective yield	–	–	–	–	(187)	–	(187)
Dividends paid (see note 7)	–	–	–	–	–	(3,745)	(3,745)
Balance at 30 June 2016	16,719	4,810	30,386	1,213	25,734	6,325	85,187

For the year ended 30 June 2015

	Share capital £'000	Share premium account £'000	Special distributable reserve £'000	CULS Equity Component £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance at 30 June 2014	16,718	4,796	30,386	2,973	45,757	6,299	106,929
CULS conversion	1	10	–	(725)	724	–	10
Return on ordinary activities after taxation	–	–	–	–	(25,913)	4,117	(21,796)
Dividends paid (see note 7)	–	–	–	–	–	(3,745)	(3,745)
Balance at 30 June 2015	16,719	4,806	30,386	2,248	20,568	6,671	81,398

The revenue reserve represents the amount of the Companies reserves distributable by way of dividend.

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

Cash Flow Statement

	Notes	Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
Operating activities			
Investment income received		4,536	5,800
Deposit interest received		2	6
Other income received		65	–
Investment management fees paid		(853)	(1,120)
Other cash payments		(473)	(504)
Net cash inflow from operating activities	16	3,277	4,182
Investing activities			
Purchases of investments		(113,165)	(94,733)
Disposals of investments		113,696	92,631
Net cash inflow/(outflow) from investing activities		531	(2,102)
Financing activities			
Buyback of CULS		(5,372)	–
Equity dividends paid		(3,745)	(3,745)
Interest on bank facility/overdraft		(2)	(26)
Interest on 3.5% Convertible Unsecured Loan Stock 2018		(1,315)	(1,398)
Net cash outflow from financing activities		(10,434)	–
Decrease in net cash		**(6,626)**	**(3,089)**
Reconciliation of net cash flow to movement in net cash			
Decrease in cash in the year		(6,626)	(3,089)
Exchange gains/(losses)		31	(117)
Movement in net cash in the year		**(6,595)**	**(3,206)**
Opening net cash at 1 July		11,333	14,539
Closing net cash at 30 June		**4,738**	**11,333**

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

Notes to the Financial Statements

for the year to 30 June 2016

1 Accounting Policies

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

(a) Basis of Accounting

The financial statements have been prepared in accordance with Financial Reporting Standard 102 and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts'. They have also been prepared on a going concern basis and on the assumption that approval as an investment trust will continue to be granted.

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is included in the Strategic Review (unaudited) on page 12.

These financial statements are the first since FRS 102 (The Financial Reporting Standard applicable in the UK and Republic of Ireland) came into effect for accounting periods beginning on or after 1 January 2015. An assessment of the impact of adopting FRS 102 has been carried out and found that no restatement of balances as at the transition date, 1 July 2015, or comparative figures in the Balance Sheet or the Income Statement is considered necessary. The Company has early adopted Amendments to FRS 102 – Fair value hierarchy disclosures issued by the Financial Reporting Council in March 2016.

Presentation of the Income Statement

In order to reflect better the activities of an investment trust company and in accordance with the SORP, supplementary information which analyses the Income Statement between items of a revenue and capital nature has been presented alongside the Income Statement. The net revenue return is the measure the Directors believe to be appropriate in assessing the Company's compliance with certain requirements set out in Chapter 4 of Part 24 of the Corporation Tax Act 2010 (previously Section 842 of the Income and Corporation Taxes Act 1988).

The notes and financial statements are presented in pounds sterling and are rounded to the nearest thousand except where otherwise indicated.

Critical accounting estimates and judgements

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

(b) Fixed asset investments

Purchases or sales of investments are recognised/derecognised on the date the Company commits to purchase/sell the investments. Investments are classified at fair value through profit and loss on initial recognition with any resultant gain or loss recognised in the Income Statement. Listed securities are valued at bid price or last traded price, depending on the convention of the exchange on which the investment is listed, adjusted for accrued income where it is reflected in the market price. Investments which are not listed or where trading in the securities of an investee company is suspended are valued at the Board's best estimate of fair value. Unquoted investments are valued by the Directors on the basis of all the information available to them at the time of valuation. This includes a review of: the financial and trading information of the Company, covenant compliance, ability to repay the interest and cash balances. For convertible bonds this includes consideration of the discounted cash flows of the interest and principal and underlying equity value, based on the information provided by the Investment Manager. Where no reliable fair value can be estimated, investments may be carried at cost less any provision for impairment.

Realised gains or losses on the disposal of investments and permanent impairments in the value of investments are taken to capital reserve. Gains and losses arising from changes in the fair value of investments are included in the Income Statement as a capital item.

(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 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. The fixed return on a debt security is recognised on a time apportioned basis so as to reflect the effective interest rate on each such security.

Income from deposit interest and underwriting commission 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) Taxation

The charge for taxation is based on net revenue for the year. The tax effect of different items of income/gain and expenditure/loss is allocated between capital and revenue on the same basis as the particular item to which it relates.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets are only recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of underlying timing differences can be deducted.

Because the Company intends each year to qualify as an investment trust under Chapter 4 of Part 24 of the Corporation Tax Act 2010 (previously S842 of the Income and Corporation Taxes Act 1988), no provision is made for deferred taxation in respect of the capital gains that have been realised, or are expected in the future to be realised, on the sale of fixed asset investments.

(e) Expenses

All expenses are accounted for on an accruals basis. Expenses are charged through the Income Statement as a revenue item 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;
- the Company charges 75 per cent of investment management fees 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 note 3.
- expenses connected with the maintenance or enhancement of the value of the investments.

(f) Foreign currency

Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates at the date of the transaction. Overseas assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year 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 capital reserves. The financial currency of the Company, being its statutory reporting currency, is sterling.

(g) Finance costs

Finance costs are accounted for on an accruals basis. Finance costs of debt, insofar as they relate to the financing of the Company's investments or to financing activities aimed at maintaining or enhancing the value of the Company's investments, are allocated between revenue and capital in accordance with the Board's expected long-term split of returns, in the form of income and capital gains respectively, from the Company's investment portfolio. For further details refer to note 5.

(h) 3.5% Convertible Unsecured Loan Stock 2018

3.5% Convertible Unsecured Loan Stock 2018 issued by the Company is regarded as a compound instrument, comprising of a liability component and an equity component. At the date of issue, the fair value of the liability component was estimated by assuming that an equivalent non-convertible obligation of the Company would have a coupon rate of 5.75%. The fair value of the equity component, representing the option to convert liability into equity, is derived from the difference between the issue proceeds of the CULS and the fair value assigned to the liability. The initial accounting treatment of the CULS resulted in an initial uplift. The liability component is subsequently measured at amortised cost using the effective cost interest rate.

Direct expenses associated with the CULS issue are allocated to the liability and equity components in proportion to the split of the proceeds of the issue. Expenses allocated to the liability component are amortised over the life of the instrument.

The interest expense on the CULS is calculated according to the effective interest rate method by applying the assumed rate of 5.75% at initial recognition to the liability component of the instrument. The difference between this amount and the actual interest paid is added to the carrying amount of the CULS.

While this additional 'notional' interest is charged to the capital account it is not considered to be a true loss and so this is transferred against the CULS equity as a reserve movement.

(i) Reserves

(a) Share premium – the surplus of net proceeds received from the issuance of new shares over their par value is credited to this account and the related issue costs are deducted from this account. The reserve is non-distributable.

(b) Capital reserve – The following are accounted for in this reserve:

- gains and losses on the realisation of investments;
- realised and unrealised exchange differences on transactions of a capital nature;
- capitalised expenses and finance costs, together with the related taxation effect; and
- increases and decreases in the valuation of investments held.

(c) Special reserve – created from the Court cancellation of the share premium account which had arisen from premiums paid at launch. Available as distributable profits.

(d) Revenue reserve – the net profit/(loss) arising in the revenue column of the Income Statement is added to or deducted from this reserve. Available for paying dividends.

2 Income

	2016 £'000	2015 £'000
Income from investments*		
UK dividend income	525	454
UK unfranked investment income	847	543
Preference share income	493	690
Overseas dividend income	1,461	1,762
Overseas fixed interest	1,443	2,384
	4,769	5,833
Other income†		
Deposit interest	3	6
Other income	65	–
	68	6
Total income	4,837	5,839
Total income comprises:		
Dividends	2,653	2,906
Fixed interest securities	2,116	2,927
Deposit interest	3	6
Other income	65	–
	4,837	5,839

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

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

3 Investment Management Fee

	2016 Revenue £'000	2016 Capital £'000	2016 Total £'000	2015 Revenue £'000	2015 Capital £'000	2015 Total £'000
Investment management fee	214	642	856	274	821	1,095

The Company's Investment Manager is CQS which in turn has delegated this function to NCIM. The contract between the Company and CQS may be terminated by either party giving not less than six months' notice of termination.
CQS receive a monthly fee at the rate of 0.1 per cent of the Company's gross assets (excluding cross-holdings) less current liabilities and any borrowings, payable in arrears.

The balance due to CQS for management fees at the year end was £86,000 (2015: £82,000).

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

4 Other Expenses (including irrecoverable VAT)

	2016 Revenue £'000	2016 Capital £'000	2016 Total £'000	2015 Revenue £'000	2015 Capital £'000	2015 Total £'000
Secretarial and administration fees	82	–	82	87	–	87
Directors' fees	101	–	101	94	–	94
Auditor remuneration for:						
– statutory audit	25	–	25	24	–	24
– other services relating to taxation	8	–	8	14	–	14
Other	239	–	239	264	–	264
	455	–	455	483	–	483

The Company has an agreement with R&H Fund Services Limited for the provision of secretarial and administration services. During the year the total fees paid and payable were £82,000 (2015: £87,000). The balance due to R&H for secretarial services at the year end was £Nil (2015: £Nil).

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

The Company does not have any employees.

5 Interest Payable and Similar Charges

	2016 Revenue £'000	2016 Capital £'000	2016 Total £'000	2015 Revenue £'000	2015 Capital £'000	2015 Total £'000
Interest on 3.5% Convertible Unsecured Loan Stock 2018	316	948	1,264	350	1,048	1,398
Notional interest on 3.5% Convertible Unsecured Loan Stock 2018	–	724	724	–	724	724
Amortisation of issue expenses	–	97	97	–	97	97
Bank overdraft	2	–	2	25	–	25
	318	1,769	2,087	375	1,869	2,244

Interest payable on the CULS has been allocated 75 per cent to capital and 25 per cent to revenue.

6 Tax on Ordinary Activities

	2016 Revenue £'000	2016 Capital £'000	2016 Total £'000	2015 Revenue £'000	2015 Capital £'000	2015 Total £'000
Corporation tax	195	(195)	–	350	(350)	–
Overseas taxation	256	–	256	242	–	242
Total tax charge/(credit)	451	(195)	256	592	(350)	242

Reconciliation of Tax Charge

The tax assessed for the year is the current standard rate of corporation tax in the UK. A reconciliation of the current tax charge is set out below:

	2016 Total £'000	2015 Total £'000
Return on ordinary activities before taxation	8,284	(21,554)
Corporation tax at standard rate of 20.00% (2015: 20.75%)	1,657	(4,473)
Effects of:		
Non taxable income	(575)	(627)
Non taxable (gains)/losses	(1,363)	4,867
Overseas withholding tax	256	242
Excess management expenses	287	209
Non deductible exchange (gains)/losses	(6)	24
Current year tax charge	256	242

Due to the Company's status as an Investment Trust, and the intention to continue meeting the conditions required to obtain approval in the foreseeable future, the Company has not provided for deferred tax on capital gains and losses arising on the revaluation or disposal of investments.

At 30 June 2016 the Company had surplus management expenses of £1,473,000 (2015: £1,186,000) on which no deferred tax asset has been recognised.

7 Dividends

	2016 Revenue £'000	2015 Revenue £'000
Amounts recognised as distributions to equity holders in the year:		
– Fourth interim dividend for the year ended 30 June 2015 of 3.02p (2014 – 3.02p) per ordinary share	2,020	2,020
– First interim dividend for the year ended 30 June 2016 of 0.86p (2015 – 0.86p) per ordinary share	575	575
– Second interim dividend for the year ended 30 June 2016 of 0.86p (2015 – 0.86p) per ordinary share	575	575
– Third interim dividend for the year ended 30 June 2016 of 0.86p (2015 – 0.86p) per ordinary share	575	575
	3,745	3,745
Amounts relating to the year but not paid at the year end:		
– Fourth interim dividend for the year ended 30 June 2016 of 3.02p (2015 – 3.02p) per ordinary share	2,020	2,020

In accordance with FRS 102 the fourth interim dividend has not been included as a liability in these accounts and will be recognised in the period in which it is paid.

8 Return per Ordinary Share

	2016 Revenue pence	2016 Capital pence	2016 Total pence	2015 Revenue pence	2015 Capital pence	2015 Total pence
Ordinary share	5.08	6.92	12.00	6.15	(38.75)	(32.60)

The revenue return per ordinary share is based on a net profit after taxation of £3,399,000 (2015: £4,115,000) and on a weighted average of 66,875,991 ordinary shares in issue during the year (2015: 66,874,250).

The capital return per ordinary share is based on a net capital profit of £4,629,000 (2015: a net capital loss of £25,911,000) and on a weighted average of 66,875,991 ordinary shares in issue during the year (2015: 66,874,250).

For the years ended 30 June 2016 and 30 June 2015 there was no dilution to the revenue return per Ordinary share. Additionally, for the year ended 30 June 2016 there was no dilution to the capital return per Ordinary share.

9 Investments

	2016 £'000	2015 £'000
Investments listed/quoted on a recognised investment exchange	109,544	104,458
Unquoted investments	3,981	2,771
	113,525	107,229
Equity shares	74,423	61,716
Fixed income securities	17,915	21,382
Treasury stock	11,235	10,491
Preference shares	8,658	12,255
Placings	1,131	1,067
Convertible securities	163	318
	113,525	107,229

The Company does not intend to acquire securities that are unquoted or unlisted at the time of investment with the exception of securities which, at the time of acquisition, are intending to list on a stock exchange or securities which are convertible into quoted securities. However, the Company may continue to hold securities that cease to be quoted or listed if the Investment Manager considers this to be appropriate.

All investments are designated fair value through profit or loss at initial recognition, therefore all gains and losses arise on investments designated at fair value through profit or loss.

FRS 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland requires an analysis of investments valued at fair value based on the reliability and significance of information used to measure their fair value. The level is determined by the lowest (that is the least reliable or independently observable) level of input that is significant to the fair value measurement for the individual investment in its entirety as follows:

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

	Level 1 Listed in UK £'000	Level 1 Listed overseas £'000	Level 2 ** £'000	Level 3 £'000	2016 Total £'000	2015 Total £'000
Opening book cost *	37,813	83,444	16,499	13,659	151,415	162,130
Opening fair value adjustment *	364	(30,538)	(2,995)	(11,017)	(44,186)	(32,944)
Opening valuation *	38,177	52,906	13,504	2,642	107,229	129,186
Purchases at cost	70,734	38,730	3,137	–	112,601	94,642
Conversions/transfers	(492)	(3,088)	1,760	1,820	–	
Sales – proceeds	(69,960)	(42,326)	(754)	(79)	(113,119)	(93,145)
Sales – losses	(2,034)	(9,287)	70	(66)	(11,317)	(12,212)
Effective yield	(22)	(54)	(95)	–	(171)	(187)
Increase/(decrease) in fair value adjustment	830	20,529	(2,721)	(336)	18,302	(11,055)
Closing valuation	37,233	57,410	14,901	3,981	113,525	107,229
Closing book cost	36,061	67,473	20,712	15,334	139,580	151,415
Closing fair value adjustment	1,172	(10,063)	(5,811)	(11,353)	(26,055)	(44,186)
Closing valuation	37,233	57,410	14,901	3,981	113,525	107,229

*The opening figures reflecting the portfolio as at 30 June 2015 have been revised to more accurately reflect trading volume data which for the corporate bond portfolio is limited with security prices commonly based on consensus broker quotes rather than recent trading activity.

**Normally, investment company investments would be valued using stock market active prices with investments disclosed as Level 1, and this is the case for the quoted equity investments that the Company holds. However, a significant number of the investments are non-equity investments. These securities are priced using evaluated prices from a third party vendor, together with a price comparison made to secondary and tertiary evaluated third party sources. Evaluated prices are in turn based on a variety of sources, including broker quotes and benchmarks. As a result these investments are disclosed as Level 2 – recognising that the fair values of these investments are not as visible as quoted equity investments and their higher inherent pricing risk. However, this does not mean that the fair values shown in the portfolio valuation are not achievable at point of sale.

The gains and losses included in the above table have all been recognised within gains/(losses) on investments in the Income Statement on page 28. The Directors believe that the use of reasonable possible alternative assumptions for its Level 3 holdings would not result in a valuation significantly different from the valuation included in these financial statements.

Gains/(losses) on investments	**2016 £'000**	**2015 £'000**
Realised losses on sale	**(11,317)**	(12,212)
Movement in fair value	**18,302**	(11,055)
Effective yield	**(171)**	(187)
Gains/(losses) on investments	**6,814**	(23,454)

During the year the Company incurred transaction costs on the purchases of £64,556 (2015: £80,773) and transaction costs on sales of £69,849 (2015: £97,715).

10 Debtors

	2016 £'000	2015 £'000
Amounts due from brokers	108	685
Prepayments and accrued income	445	636
VAT recoverable	23	11
	576	1,332

11 Creditors: Amounts Falling Due Within One Year

	2016 £'000	2015 £'000
Amounts due to brokers	14	561
Corporation tax	163	163
Other creditors	152	154
Interest on 3.5% Convertible Unsecured Loan Stock 2018	298	348
	627	1,226

Included within other creditors is £86,000 (2015: £82,000) due to CQS in respect of management fees.

12 3.5% Convertible Unsecured Loan Stock 2018

	Nominal number of CULS £'000	Liability component £'000	Equity component £'000
Balance at the beginning of the year	39,930	37,270	2,248
Amortisation of discount on issue and issue expenses	–	97	–
Transfer of CULS liability discount amortisation	–	724	(724)
Conversion during the year	(4)	(3)	–
Buyback of CULS	(5,372)	(5,063)	(311)
Balance at the end of the year	**34,554**	**33,025**	**1,213**

On 26 September 2011, the Company issued £40,000,000 nominal of 3.5% Convertible Unsecured Loan Stock 2018. The CULS can be converted at the election of holders into ordinary shares during the months of March and September in each year throughout their life, commencing March 2012 to September 2018 at a rate of 1 ordinary share for every 377.1848p nominal of CULS.

On 9 October 2015, the Company issued 54 ordinary shares in connection with the exercise of £207 nominal of the Company's CULS. On 19 April 2016, the Company issued 949 ordinary shares in connection with the exercise of £3,581 nominal of the Company's CULS.

Throughout the year, £5,372,000 nominal of CULS were purchased for cancellation by the Company.

Once 80% of the nominal amount of the CULS issued have been converted, the Company is allowed to request that holders redeem or convert the remainder. Interest is paid on the CULS on 31 March and 30 September in each year. 25% of the interest is charged to revenue in line with the Board's expected long-term split of returns from the investment portfolio of the Company.

As at 30 June 2016, there was £34,553,872 nominal of CULS in issue, which are due for repayment on 26 September 2018.

13 Share Capital

	2016 Shares	2016 £'000
Authorised at 30 June		
Ordinary shares of 25p each	100,000,000	25,000
Allotted, called up and fully-paid		
Total issued ordinary shares of 25p each as at 1 July 2015	66,875,765	16,719
Conversion of 3.5% Convertible Unsecured Loan Stock 2018		
– Issue of 54 ordinary shares on 9 October 2015	54	–
– Issue of 949 ordinary shares on 19 April 2016	949	–
Total issued ordinary shares of 25p each as at 30 June 2016	66,876,768	16,719

On 9 October 2015, the Company issued 54 ordinary shares in connection with the exercise of £207 nominal of the Company's CULS. On 19 April 2016, the Company issued 949 ordinary shares in connection with the exercise of £3,581 nominal of the Company's CULS.

Capital management policies and procedures

The Company's capital management objectives are:

– to ensure that the Company will be able to continue as a going concern; and

– to maximise the capital return to its equity shareholders through an appropriate balance of equity capital and debt. The Board normally seeks to limit gearing to 25% of net assets.

The Board monitors and reviews the broad structure of the Company's capital on an ongoing basis. This review includes the nature and planned level of gearing, which takes account of the Investment Manager's views on the market, and the extent to which revenue in excess of that which is required to be distributed should be retained. The Company has no externally imposed capital requirements.

The capital of the Company is managed in accordance with its investment policy detailed in the Strategic Review on page 11.

14 Reserves

	Special reserve £'000	Share premium £'000	Equity element of CULS £'000	Capital reserve £'000	Revenue reserve £'000
At 30 June 2015	30,386	4,806	2,248	20,568	6,671
Exchange gains	–	–	–	31	–
Losses on sales of investments	–	–	–	(11,317)	–
Increases in fair value adjustment	–	–	–	(171)	–
Current year effective yield	–	–	–	18,302	–
Prior year effective yield	–	–	–	(187)	–
Costs charged to capital	–	–	–	(2,216)	–
Taxation credited to capital	–	–	–	195	–
Dividends paid	–	–	–	–	(3,745)
Retained net revenue for the year	–	–	–	–	3,399
Transfer of CULS liability discount amortisation	–	–	(724)	724	–
CULS buybacks	–	4	(311)	–	–
At 30 June 2016	30,386	4,810	1,213	25,734	6,325

The special reserve is available for the buying back of shares. £6,325,000 is available for distribution as a dividend as represented in the revenue reserve.

15 Net Asset Value per Ordinary Share

The net asset value per ordinary share is based on net assets of £85.2 million (2015: £81.4 million) and on 66,876,768 (2015: 66,875,765) ordinary shares, being the number of ordinary shares in issue at the year end.

16 Reconciliation of Net Return before Finance Costs and Taxation, to Net Cash Inflow from Operating Activities

	2016 £'000	2015 £'000
Net return before finance costs and taxation	10,371	(19,310)
(Gains)/losses on investments	(6,814)	23,454
Effective yield	(171)	(187)
Withholding tax suffered	(256)	(242)
Decrease in accrued income	192	396
(Increase)/decrease in other debtors	(13)	3
Decrease in other creditors	(1)	(49)
Exchange (gains)/losses	(31)	117
Net cash inflow from operating activities	3,277	4,182

17 Financial Instruments

The Company's financial instruments comprise its investment portfolio, cash balances, bank facilities and debtors and creditors that arise directly from its operations. As an investment trust the Company holds a portfolio of financial assets in pursuit of its investment objective. The Company can make use of flexible borrowings for short term purposes to achieve improved performance in rising markets and to seek to enhance the returns to shareholders, when considered appropriate by the Investment Manager. The downside risk of borrowings may be reduced by raising the level of cash balances held.

Listed 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. Unquoted 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 29. The fair value of the 3.5% Convertible Unsecured Loan Stock 2018 is not materially different from its 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 bank may demand re-payment of a loan or that the Company may not be able to liquidate quickly its investments.

The Company held the following categories of financial instruments as at 30 June 2016:

	2016 £'000	2015 £'000
Financial instruments		
Investment portfolio	113,525	107,229
Cash at bank and on deposit	4,738	11,333
Amounts due from brokers	108	685
Accrued income	427	619
Other debtors	41	28
Financial liabilities		
3.5% Convertible Unsecured Loan Stock 2018	33,025	37,270
Amounts due to brokers	14	561
CULS interest due	298	348
Other creditors	315	278

Market price risk

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

Investment and portfolio performance are discussed in more detail in the Investment Manager's Review and further information on the investment portfolio is set out on pages 8 and 9.

If the investment portfolio valuation fell by 10 per cent at 30 June 2016, the impact on the profit or loss and the net asset value would have been negative £11.4 million (2015: negative £10.7 million). If the investment portfolio valuation rose by 10 per cent the impact would have been equal and opposite. The calculations are based on the portfolio valuation as at the respective balance sheet dates and are not representative of the year as a whole, and may not be reflective of future market conditions.

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.

The Company's exposure to floating interest rates gives rise to cash flow interest rate risk and its exposure to fixed interest rates gives rise to fair value interest rate risk. Interest rate risk on fixed rate interest instruments is considered to be part of market price risk as disclosed above.

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 cash balances is the bank base rate for the relevant currency for each deposit.

Financial liabilities

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

If the bank base rate had increased by 0.5 per cent, the impact on the profit or loss would have been a loss of £2,000 (2015: £25,000). If the bank base rate had decreased by 0.5 per cent, the impact on the profit or loss would have been equal and opposite. The calculations are based on borrowings as at the respective balance sheet dates and are not representative of the year as a whole.

Fixed rate

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

	2016 £'000	2016 Weighted average interest rate (%)*	2016 Weighted average period for which the rate is fixed (years)	2015 £'000	2015 Weighted average interest rate(%)*	2015 Weighted average period for which the rate is fixed (years)
Assets:						
Fixed income and convertible securities	18,078	13.0	6.7	22,113	11.6	8.7
Preference shares	8,658	9.6	n/a	12,255	9.7	n/a

* The ''weighted average interest rate'' is based on the current yield of each asset, weighted by their market value.

Foreign currency risk

The Company invests in overseas securities and may hold foreign currency cash balances which give rise to currency risks. The Company does not hedge its currency exposure and as a result the movement of exchange rates between pounds sterling and the other currencies in which the Company's investments are denominated may have a material effect, unfavourable or favourable, on the returns otherwise experienced on the investments made by the Company. Although the Investment Manager may seek to manage all or part of the Company's foreign exchange exposure, there is no assurance that this can be performed effectively.
Foreign currency exposure at 30 June was as follows:

	2016 Investments £'000	2016 Cash £'000	2016 Net current assets £'000	2016 Total £'000	2015 Investments £'000	2015 Cash £'000	2015 Net current liabilities £'000	2015 Total £'000
Canadian Dollar	32,215	74	136	32,425	26,778	352	131	27,261
Australian Dollar	16,958	2	77	17,037	19,763	(193)	(488)	19,082
US Dollar	17,010	15	160	17,185	12,692	450	301	13,443
Norwegian Krone	2,777	–	–	2,777	1,979	3	2	1,984
Euro	2,346	3	13	2,362	954	–	10	964
Swiss	–	1	–	1	–	1	–	1
BRL	–	5	–	5	–	3	–	3
	71,306	100	386	71,792	62,166	616	(44)	62,738

If the value of sterling had weakened against each of the currencies in the portfolio by 5 per cent, the impact on the profit or loss and the net asset value would have been positive £3.6 million (2015: positive £3.1 million). If the value of sterling had strengthened by the same amount the effect would have been equal and opposite. The calculations are based on the portfolio valuation, cash balances and net current assets/(liabilities) as at the respective balance sheet dates and are not representative of the year as a whole, and may not be reflective of future market conditions.

The Investment Manager does not intend to hedge the Company's foreign currency exposure at the present time.

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 credit risk exposure at the balance sheet date.

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

	2016 £'000	2015 £'000
Cash and cash equivalents	**4,738**	11,333
Balances due from brokers	**108**	685
Interest, dividends and other receivables	**468**	647
	5,314	12,665

Credit risk on fixed interest investments is considered to be part of market price risk. As at 30 June 2016 and as at 21 September 2016 there were no debtors that were past due.

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 used. The Board monitors the quality of service provided by the brokers used to further mitigate this risk.

The cash held by the Company and all the assets of the Company which are traded on a recognised exchange are held by HSBC Bank, the Company's custodian. Bankruptcy or insolvency of the custodian may cause the Company's rights with respect to 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 Bank deteriorate significantly the Investment Manager will move the cash holdings to another bank.

There were no significant concentrations of credit risk to counterparties as at 30 June 2016 and as at 30 June 2015. No individual investment exceeded 6.7 per cent of net assets as at 30 June 2016 (2015: 8.6 per cent).

As at 30 June 2016, the Company held 3 per cent or more of issued share capital of the following companies:

	Value £	Percentage held
Plant Impact	4,406,000	10.8%
REA holdings	4,438,000	7.0%
Trevali Mining	4,064,000	3.2%

Liquidity risk

The Company's financial instruments include investments in unquoted 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.

At the reporting date, the Company's unquoted financial assets exposed to such liquidity risk were:

	2016 £'000	2015 £'000
Unquoted investments:		
Unquoted convertible securities that are convertible into listed securities	2,019	409
Unquoted equities (including placings)	1,963	2,234
Unquoted bonds	–	127
	3,982	2,770

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. The Company also maintains sufficient cash and readily realisable securities to meet any demand repayments on an overdraft facility.

18 Related Party Transactions

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

As at 30 June 2016, the Company held shares in New City Energy Ltd and Golden Prospect Precious Metals Ltd, these two investment companies are also managed by the Investment Manager.

Details of the fee arrangement with the Investment Manager is included within the Directors' Report under the heading Management and Management Fees and is disclosed in note 3.

There are no other transactions with the Board other than aggregated remuneration for services as Directors as disclosed in the Directors' Remuneration Report on pages 24 and 25, and as set out in the note 4 to the accounts. The beneficial interests of the Directors in the ordinary shares of the Company and in the 3.5% Convertible Unsecured Loan Stock 2018 are disclosed on pages 14 and 15.

The balance due to Directors for fees at the year end was £11,700 (2015: £nil).

Glossary of Terms and Definitions

Gearing Total assets (as below) less all cash (including UK Treasury Stock) divided by shareholders' funds.

Asset Cover The value of a company's net assets available to repay a certain security. Asset cover is usually expressed as a multiple and calculated by dividing the net assets available by the amount required to repay the specific security.

Discount/Premium The amount by which the market price per share of an investment trust is lower or higher than the net asset value per share. The discount or premium is normally expressed as a percentage of the net asset value per share.

Dividend Cover Earnings per share (per the revenue column) divided by dividends per share expressed as a ratio.

Dividend Yield The annual dividend expressed as a percentage of the share price.

Net Asset Value or NAV The value of total assets less liabilities. Liabilities for this purpose included current and long-term liabilities. To calculate the net asset value per Ordinary share the net asset value is divided by the number of shares in issue.

Ongoing Charges Ratio A measure of all operating costs incurred in the reporting period, calculated as a percentage of average net assets in that year. Operating costs exclude costs suffered within underlying investee funds, costs of buying and selling investments, interest costs, taxation and the costs of buying back or issuing ordinary shares.

Price/Earnings Ratio The ratio is calculated by dividing the middle-market price per share by the earnings per share.

The calculation assumes no change in earnings but in practice the multiple reflects the stock market's view of a company's prospects and profit growth potential.

Prior Charges The name given to all borrowings including debentures, loan and short term loans and overdrafts that are to be used for investment purposes, reciprocal foreign currency loans, currency facilities to the extent that they are drawn down, index-linked securities, and all types of preference or preferred capital and the income shares of split capital trusts, irrespective of the time until repayment.

Redemption Yield The measure of the annualised total return on the current price of a security up to the date of its repayment. The calculation is based on aggregated income and capital returns, no account being taken of taxation.

Total Assets Total assets less current liabilities (excluding prior charges as defined above).

Total Return Total return involves reinvesting the net dividend in the month that the share price goes xd. The NAV total return involves investing the same net dividend in the NAV of the trust on the date to which that dividend was earned, eg quarter end, half year or year end date.

Notice of Annual General Meeting

Notice is hereby given that the nineteenth Annual General Meeting of City Natural Resources High Yield Trust plc will be held at the Bonham Hotel, 35 Drumsheugh Gardens, Edinburgh EH3 7RN on Tuesday, 29 November 2016 at 12.30pm to consider the following resolutions:

Ordinary Business

As ordinary business, to consider and, if thought fit, pass the following resolutions which will be proposed as Ordinary Resolutions:

1. To receive and adopt the Directors' report and financial statements for the year ended 30 June 2016, together with the auditor's report thereon.
2. To approve the Directors' Remuneration Policy.
3. To approve the Directors' Remuneration Report for the year ended 30 June 2016.
4. To approve the Company's Dividend Policy.
5. To re-elect Mr G D C Burns, who retires annually, as a Director.
6. To re-elect Mr A J R Collins, who retires annually, as a Director.
7. To re-elect Mr R Ö Prickett, who retires annually, as a Director.
8. To re-elect Mr A G Evans, who retires annually, as a Director.
9. To re-elect Mrs H F Green, who retires annually, as a Director.
10. To re-appoint KPMG LLP as Independent Auditor of the Company and to authorise the Directors to determine their remuneration.

Special Business

As special business, to consider and if thought fit, pass the following resolutions, which will be proposed as Ordinary Resolutions:

11. That the Company continues as an investment trust pursuant to the undertaking given by the Board in 2003.
12. That, in substitution for any existing authority, but without prejudice to the exercise of any such authorisation prior to the date of this resolution, the Directors of the Company be and they are hereby generally and unconditionally authorised, in accordance with Section 551 of the Companies Act 2006 ("the Act"), to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company (together being "relevant securities"), up to an aggregate nominal amount of £1,670,247, such authorisation to expire at the conclusion of the next annual general meeting of the Company to be held in 2016, unless previously revoked, varied or renewed by the Company in general meeting, save that the Company may, at any time prior to the expiry of such authorisation, make an offer or enter into an agreement which would or might require relevant securities to be allotted or granted after the expiry of such authority and the Directors of the Company may allot or grant relevant securities in pursuance of such an offer or agreement as if such authorisation had not expired.

As special business, to consider and if thought fit, pass the following resolutions which will be proposed as Special Resolutions:

13. That, subject to the passing of resolution 12 above, and in substitution for any existing power but without prejudice to the exercise of any such power prior to the date of this resolution, the Directors of the Company be and they are hereby empowered, in accordance with Sections 570 and 573 of the Companies Act 2006 (the 'Act'), to allot equity securities (as defined in Section 560 of the Act) either pursuant to the authorisation under Section 551 of the Act conferred on the Directors of the Company by such resolution numbered 12, or by way of a sale of treasury shares, in each case for cash, as if Section 561(1) of the Act did not apply to any such allotment:

    (i) other than pursuant to sub-paragraph (ii) below, up to an aggregate nominal amount of £834,287 (representing approximately 4.99 per cent of the present issued share capital of the Company); or

    (ii) in connection with an offer of equity securities open for acceptance for a period fixed by the Directors of the Company to the holders of ordinary shares in the share capital of the Company on a fixed record date in proportion (or as nearly as practicable) to their respective holdings of ordinary shares (but subject to such exclusions or other arrangements as the Directors of the Company may consider necessary or expedient to deal with any legal problems under or resulting from the application or apparent application of the laws of any territory or the requirements of any regulatory body or any stock exchange in any territory or in connection with fractional entitlements or otherwise howsoever);

    such power to expire at the conclusion of the next annual general meeting of the Company to be held in 2016 unless previously revoked, varied or renewed by the Company in general meeting, save that the Company may, at any time prior to the expiry of such power, make an offer or enter into an agreement which would or might require equity securities to be allotted after the expiry of such power and the Directors of the Company may allot equity securities in pursuance of such an offer or agreement as if such power had not expired.

14. That, in substitution for any existing authority but without prejudice to the exercise of any such authority prior to the date of this resolution, the Company be and is hereby authorised in accordance with Section 701 of the Companies Act 2006 (the "Act") to make market purchases (within the meaning of Section 693 of the Act) of ordinary shares of 25p each in the capital of the Company and to cancel or hold in treasury such shares provided that:

    (i) the maximum number of ordinary shares hereby authorised to be purchased shall be 14.99 per cent of the issued share capital of the Company as at the date of the passing of this resolution;

    (ii) the minimum price which may be paid for an ordinary share is 25p;

(iii) the maximum price (exclusive of expenses) which may be paid for an ordinary share shall not be more than the higher of (i) 5 per cent above the average of the middle market quotations for an ordinary share on the London Stock Exchange Daily Official List for the five business days immediately preceding the date on which any such purchase is made and (ii) the higher of the last independent trade and the highest current bid on the London Stock Exchange;

(iv) the authority hereby conferred shall expire on 31 December 2017 or, if earlier, at the conclusion of the Annual General Meeting of the Company to be held in 2017 unless such authority is renewed, varied or revoked by the Company in general meeting prior to such time; and

(v) the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of ordinary shares pursuant to any such contract.

15. That, a general meeting other than an Annual General Meeting may be called on not less than 14 clear days' notice.

R&H Fund Services Limited
Secretary
20 Forth Street
Edinburgh EH1 3LH

21 September 2016

Notes

1. Information about this meeting is available from the Investment Manager's website; www.ncim.co.uk

2. A member entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to exercise all or any of their rights to attend, speak and vote at the meeting. A proxy need not be a member of the Company . You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise the rights attached to any one share.

3. A form of proxy is enclosed for use at the above meeting. Completion and return of the form of proxy will not prevent a member from attending the meeting and voting in person. To be effective, the form of proxy, duly executed, must be lodged at the address shown on the form of proxy not later than 48 hours before the time of the meeting.

4. The right to vote at the meeting is determined by reference to the Company's register of Members as at 6.30 pm on 27 November 2016. Changes to entries on the register after that time should be disregarded in determining the rights of any member to attend and vote at the meeting.

5. As at 9.00 am on 21 September 2016, the Company's issued share capital comprised 66,876,768 ordinary shares of 25 pence each. Each ordinary share carries the right to one vote at a general meeting of the Company, and therefore, the total number of voting rights in the Company as at 9.00 am on 21 September 2016 is 66,876,768.

6. As a member, you have the right to put questions at the meeting relating to the business being dealt with at the meeting.

7. Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between them and the member by whom they were nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, they may, under any such agreement, have a right to give instructions to the member as to the exercise of voting rights.

8. The statement of the rights of members in relation to the appointment of proxies in notes 2 and 3 above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by members of the Company.

9. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) thereof by utilising the procedures described in the CREST Manual which can be viewed at www.euroclear.com. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

10. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's ("EUI") specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the issuer's agent (ID-RA19) by the latest time for the receipt of proxy appointments specified in note 3 above. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

11. CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

12. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001 (as amended).

13. No Director has a service contract with the Company but copies of Directors' letters of appointment will be available for inspection for at least 15 minutes prior to the meeting and during the meeting.

14. Under section 338 of the Companies Act 2006, members may require the Company to give, to members of the Company entitled to receive this notice of meeting, notice of a resolution which may properly be moved and is intended to be moved at the meeting. Under Section 338A of that Act, members may request the Company to include in the business to be dealt with at the meeting any matter (other than a proposed resolution) which may properly be included in the business.

15. It is possible that, pursuant to requests made by members of the Company under Section 527 of the Companies Act 2006, the Company may be required to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the meeting: or (ii) any circumstances connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with Section 437 of the Companies Act 2006. The Company may not require the members requesting any such website publication to pay its expenses in complying with Sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under Section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the meeting includes any statement that the Company has been required under Section 527 of the Companies Act 2006 to publish on a website.

16. In accordance with Section 311A of the Companies Act 2006, the contents of this notice of meeting, details of the total number of shares in respect of which members are entitled to exercise voting rights at the AGM and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this notice will be available on the Company's website www.ncim.co.uk.

17. You may not use any electronic address provided either in this Notice of Meeting or any related documents (including the Form of Proxy) to communicate with the Company for any purposes other than those expressly stated.

Corporate Information

Registered Number

02978531
Registered in England & Wales

Registered Office

R&H Fund Services Limited
6 New Street Square
New Fetter Lane
London EC4A 3AQ

Directors

Geoffrey D C Burns (Chairman)
Adrian J R Collins
Alun G Evans
Helen F Green
Richard Ö Prickett*

Investment Manager

New City Investment Managers
CQS Cayman Limited Partnership
4th Floor
One Strand
London WC2N 5HR

Secretary and Administrator

R&H Fund Services Limited
20 Forth Street
Edinburgh EH1 3LH
Tel: 0131 550 3760

Solicitors

Maclay Murray & Spens LLP
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Financial Adviser and Corporate Broker

Cantor Fitzgerald Europe
One Churchill Place
Canary Wharf
London E14 5RB

Bankers, Custodian and Depositary

HSBC Bank plc
8 Canada Square
London E14 5HQ

Auditor

KPMG LLP
20 Castle Terrace
Edinburgh EH1 2EG

AIFM

CQS Asset Management Limited
4th Floor
One Strand
London WC2N 5HR

Registrars

Equiniti
Aspect House
Spencer Road, Lancing
West Sussex BN99 6DA

Shareholder helpline UK: **0371 384 2410****
Shareholder helpline overseas: **+44 121 415 7047**

Shareholder Information

Net Asset Value/Share Price

The net asset value of the Company's ordinary shares may be obtained by contacting CQS on 0207 201 6900 or by email at clientservice@cqsm.com or alternatively by visiting the Company's web site at www.ncim.co.uk.

Website

www.ncim.co.uk

*Chairman of the Audit Committee

**Calls from outside the UK will be charged at international rates. Other telephone provider costs may vary. Lines open 8.30am to 5.30pm, Monday to Friday.

citynatural
resources
high yield trust plc