

citynatural  
resources  
high yield trust plc



Annual Report  
30 June 2011

## Investment Objective

The investment objective of the Company is to provide shareholders with capital growth and income from a portfolio of mining and resource equities and of mining, resource and industrial fixed interest securities.

## Benchmark Index

The Company aims to outperform, in total return terms, a composite benchmark weighted two-thirds to the HSBC Global Mining Index (sterling adjusted) and one-third to the Credit Suisse High Yield Index (sterling adjusted). The Board will evaluate the Company's total return performance on an annual basis against the total return of this composite benchmark.

## Dividend Policy

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

## Corporate Summary

City Natural Resources High Yield Trust plc is an investment trust and its shares are listed on the main market of the London Stock Exchange.

At 30 June 2011 total assets less current liabilities were £236.8 million and the market capitalisation was £203.9 million.

At 30 June 2011 the Company had overnight borrowings of £17.4 million which ranked for repayment ahead of any capital return to shareholders.

The Company has 66,857,143 ordinary shares of 25 pence each all of which are issued and fully paid. 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.

On 26 September 2011 the Company issued £40,000,000 nominal of 3.5% Convertible Unsecured Loan Stock 2018 ('CULS'). 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 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 each year; the conversion price will be 377.18p nominal CULS for one ordinary share.

£20.6 million of the bank facility was drawn down on 26 September 2011 and this was repaid in full. No balance is currently drawn down.

At 11 October 2011, the last practicable date prior to signing the accounts, the Company's net asset value was 314.9 pence per share.

## Important information

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

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

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

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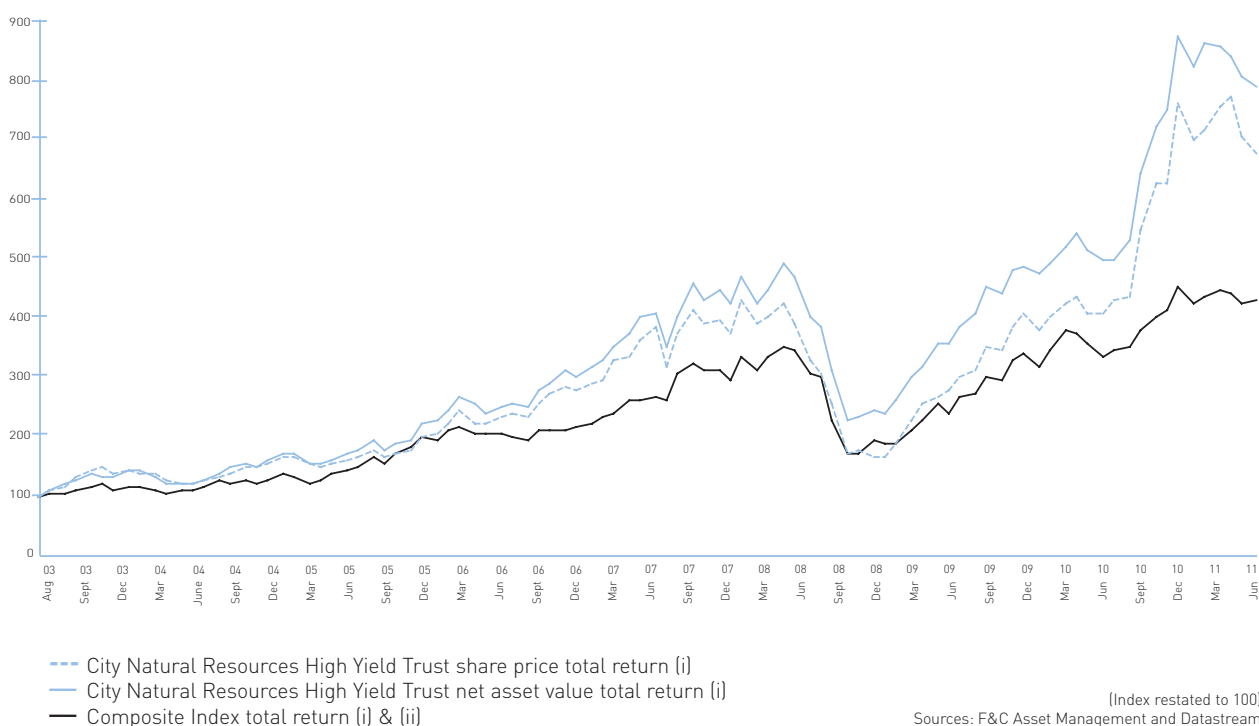


# Financial Highlights

For the year ended 30 June 2011

- Net asset value total return of 58.8 per cent since 1 July 2010 compared to a total return of 27.1 per cent from the benchmark index.
- Ordinary share price total return since 1 July 2010 of 64.4 per cent.
- Dividend of 4.22 pence per share for the year, an increase of 13.7 per cent.
- Sixth consecutive increase in the annual dividend, with an increase of over 111 per cent since 1 August 2003.
- Net asset value total return of 690.6 per cent since 1 August 2003 compared to a total return of 331.1 per cent from the benchmark index.
- Ordinary share price total return since 1 August 2003 of 577.9 per cent.

## City Natural Resources High Yield Trust Net Asset Value Total Return and Share Price Total Return v Composite Index Total Return



(i) Net dividends reinvested.

(ii) Composite index of two-thirds HSBC 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.

# Performance Summary

|                                                                                    | Year to<br>30 June 2011 | Year to<br>30 June 2010 | Period from<br>1 August<br>2003 to<br>30 June 2011 |
|------------------------------------------------------------------------------------|-------------------------|-------------------------|----------------------------------------------------|
| <b>Total Return</b>                                                                |                         |                         |                                                    |
| Net Asset Value                                                                    | 58.8%                   | +38.7%                  | 690.6%                                             |
| Ordinary share price                                                               | 64.4%                   | +45.7%                  | 577.9%                                             |
| Composite Index                                                                    | 27.1%                   | +40.0%                  | 331.1%                                             |
| HSBC Global Mining Index (sterling adjusted)                                       | 31.8%                   | +39.8%                  | 447.1%                                             |
| Credit Suisse High Yield Index (sterling adjusted)                                 | 6.3%                    | +40.9%                  | 99.1%                                              |
|                                                                                    | 30 June<br>2011         | 30 June<br>2010         | % change<br>period                                 |
| <b>Capital Values</b>                                                              |                         |                         |                                                    |
| Net Asset Value per share                                                          | 354.2p                  | 226.0p                  | 56.7%                                              |
| Share price (mid market)                                                           | 305.0p                  | 188.5p                  | 61.8%                                              |
|                                                                                    | 30 June<br>2011         | 30 June<br>2010         | % change<br>period                                 |
| <b>Revenue and Dividends</b>                                                       |                         |                         |                                                    |
| Earnings per ordinary share                                                        | 5.09p                   | 4.88p                   | 4.3%                                               |
| Dividends per ordinary share                                                       | 4.22p                   | 3.71p                   | 13.7%                                              |
| <b>Dividend Yield</b>                                                              | 1.4%                    | 2.0%                    |                                                    |
| <b>Discount</b> (difference between share price and fully diluted net asset value) | (13.9)%                 | (16.6)%                 |                                                    |
| <b>Gearing</b> (100 = nil geared position)*                                        | 107.9                   | 109.7                   |                                                    |
| <b>Total Expense Ratio</b> (as a percentage of average shareholders' funds)        | 1.5%                    | 1.5%                    |                                                    |
|                                                                                    | 2010/11<br>High         | 2010/11<br>Low          |                                                    |
| <b>Period's Highs/Lows</b>                                                         |                         |                         |                                                    |
| Net Asset Value (fully diluted)                                                    | 406.7p                  | 221.4p                  |                                                    |
| Ordinary Share Price                                                               | 360.1p                  | 183.0p                  |                                                    |
| Discount                                                                           | (6.7)%                  | (20.3)%                 |                                                    |

\*Gearing = Total Assets ÷ Equity Shareholders' Funds.

Sources: F&C Asset Management and Datastream.

## Dividend History

|                  |                                                          |
|------------------|----------------------------------------------------------|
| 26 November 2010 | First interim dividend of 0.69p per ordinary share paid  |
| 25 February 2011 | Second interim dividend of 0.69p per ordinary share paid |
| 27 May 2011      | Third interim dividend of 0.69p per ordinary share paid  |
| 26 August 2011   | Fourth interim dividend of 2.15p per ordinary share paid |

## Board Members

### Chairman

**Geoffrey Burns**, was appointed to the Board on 29 June 2005, and became Chairman on 29 July 2005. 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 25 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 an adviser to CDC Group and the Swiss Government on unquoted investments.

### Directors

**Adrian Collins**, was appointed to the Board on 14 December 1995 and was appointed Chairman between 5 March 2004 and 31 March 2005. 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 Douglas Bay Capital plc, New City High Yield Fund Limited, and a number of other companies.

**Adam Cooke**, was appointed to the Board on 26 June 2003. He was until 31 December 2004 a global partner of Invesco PLC, one of the world's largest independent investment management organisations where he worked for Invesco UK. Adam joined Invesco in 1976 and his experience includes the UK institutional business, investment companies and collective investments. He is a director of Premier Energy and Water Trust plc and Midas Income and Growth Trust plc.

He is a member of the Chartered Institute of Bankers. Adam is employed by CQS of which NCIM is a group company.

**Michael Coulson**, was appointed to the Board on 26 June 2003. He is a senior research analyst covering mining and gold shares with more than 38 years' experience. He was a senior mining analyst at Phillips & Drew from 1982 until 1986, when he joined Kitcat & Aitken's mining department as an executive director, where he remained until 1990. He was head of African research at Credit Lyonnais Laing from 1992 until 1994, when he took up the same position at Nedcor Securities until 1996. He was head of global mining research at Paribas from 1998 to 2000.

**Richard Prickett**, was appointed on 30 November 2006. He 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 on two-AIM listed mineral exploitation companies, Patagonia Gold and Landore Resources. He is also the non-executive chairman of Asian Growth Properties Ltd.

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

*The Board, excluding Mr Cooke, fulfils the function of the Audit, Nomination and Management Engagement Committees.*

## Investment Manager

New City Investment Managers ("NCIM") was established by Richard Lockwood, and the Company appointed it as its Investment Manager with effect from 1 April 2005. NCIM was appointed under the terms of the existing management agreement in succession to Midas Capital Partners Limited ("Midas").

On 1 October 2007, NCIM joined the CQS Group, a global diversified asset manager running multiple strategies with, as at 31 July 2011, US\$11.0 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.

Will Smith has day-to-day responsibility for managing the Company's portfolio. He was supported by Merfyn Roberts as co-manager during the year, as well as the rest of the NCIM team. Mr Roberts left NCIM during October 2011 and has been replaced as co-manager by Ian Francis. Mr Smith joined the NCIM team in 2008. He has over 30 years' investment experience and his career has included Morgan Grenfell, UBS, and Panmure Gordon. Mr Francis joined the NCIM team in 2007. He has over 30 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.

Mr Lockwood, who has managed the trust since 2003, has stepped back from the day-to-day management but remains with the team and will continue to make an important contribution to strategy.

# Chairman's Statement

## Investment and Share Price Performance

At 30 June 2011 your Company's net asset value stood at 354.2 pence, giving a net asset value total return for the year of 58.8 per cent.

The Company's share price total return during the year of 64.4 per cent was rather better than that of its net asset value, reflecting a further narrowing of the discount at which the Company's shares trade from 16.6 per cent to 13.9 per cent during the year. Recent high levels of market instability and volatility have seen this trend reverse, and the discount stands at 17.4 per cent as I write.

Your Company has generated net asset value and share price total returns of 690.6 and 577.9 per cent respectively since 1 August 2003; the benchmark index has returned 331.1 per cent.

Your Company's net asset value peaked at 406.7 pence on 8 April 2011, before falling back amidst renewed concerns over world economic conditions; it currently stands at 314.9 pence.

## Income and Dividends

The Company paid a fourth interim dividend of 2.15 pence per share. This took the dividend for the year to a total of 4.22 pence, an increase of 13.7 per cent on last year and representing the sixth successive year of dividend increases. These have seen the Company's dividends grow by 111 per cent since 2004/05. The Board intends to continue to implement a progressive dividend policy.

The yield on the Company's shares is 1.6 per cent as I write.

## Gearing

I am pleased to report that the Company successfully issued £40 million nominal of 3.5% Cumulative Unsecured Loan Stock ("CULS") on 26 September 2011. Your Board believes that the CULS is attractive in its own right – the issue is more than five times covered by the Company's assets and the yield of 3.5% is more than twice that of the ordinary shares – and provides seven year financing for the Company at an attractive interest rate and extends the Company's capital base.

£21 million of the proceeds of the issue was used to repay the Company's existing short term bank loan and the balance will be deployed in accordance with the stated investment policy.

## Chairman's Statement (continued)

### **Investment Strategy and Outlook**

Until recently the eurozone countries were King Canute-like defying the tide of excessive sovereign and bank debt. There are signs of them beating an undignified retreat up the beach. The consequences of the delay in this for European demand and the European financial sector are not pleasant to contemplate, while a glance across the Atlantic towards a Washington paralysed by policy gridlock even before election year does not reassure. The beneficent conditions that favoured the Company during much of the last year – the prospect of strong global economic recovery, combined with few safe havens for investment other than gold – have abated.

However, while reduced growth expectations certainly affect commodity demand and pricing in the short term, the coyness of any currency to step forward as a safe place to park cash continues to benefit gold, to which your Company has a near 30% exposure. This underpins your Board's confidence in our ability to weather any short term storms.

While during the year risk perceptions have risen and global growth expectations have reduced, in the medium term it remains our view that natural resources will remain in demand. The amassing of enormous reserves in the BRIC economies, earned from feeding old world consumers, creates conditions for consumption to rise in the new world. The only question is how fast this will take place, and in China, India and Brazil the early signs are there. Your Company remains focussed on being positioned to benefit from these trends.

**Geoff Burns**

Chairman

13 October 2011

## Investment Manager's Review

This was a year of contrasting six month periods as the exuberance of the latter half of 2010 was transformed into a much more restrained 2011. The buoyant equity markets in the first six months of the Company's year saw the net asset value rise by 84% over that period, with further assistance coming from rising commodity prices, continued merger and acquisition activity across the resources sector and weakness in Sterling relative to the Australian and Canadian dollars.

Macroeconomic concerns have dominated in 2011, particularly the eurozone's travails and the search for a credible solution to the sovereign debt problems of the developed world's economies. Resource markets have also reacted to heightened political risk, such as the events in North and West Africa, which have unfolded since the start of the year.

The tragic events following the earthquake off the coast of Japan and subsequent tsunami severely affected sentiment towards the uranium sector as the attempts to stabilise the stricken reactors at Fukushima were broadcast around the world. We believe that nuclear power has an important role to play providing baseload power and we look forward to a time that a debate can take place on energy policy based on science and without emotion.

The headwinds of the second half left the Company's net asset value 58.8% higher over the year on a total return basis and was greatly helped by overweight exposure to the gold sector. Whilst gold equities may have lagged the metal over the period they have outperformed the broader market by a wide margin. We feel that equity underperformance is due to three main reasons: firstly, investors have been nervous about rising costs affecting miners' margins, particularly those developing mines. Secondly, gold equities have suffered in the broader resources market weakness and thirdly, and most importantly, the money flows have been predominantly into the metal via physical demand out of India and China, Central Bank buying and the ETF demand. There are encouraging signs that this underperformance may be reversing as gold companies have learnt to offer what the ETF's cannot - dividends and growth. We look forward to the 3rd and 4th quarter figures this year confirming record earnings and increased dividends from the producing companies.

Not all gold equities have disappointed during the year and two exploration companies have been among the Company's best performers. Extorre, operating in Argentina, and Ausgold, working on its Katanning project in Western Australia, have both proved that exciting discoveries will be rewarded by the market.

The Trust has long favoured Palm Oil as a play on rising incomes in the developing world, and the strong performance this year of both REA Holdings and New Britain Palm Oil reflects both on the strong management of the companies and the increase in the palm oil price throughout the year.

The rare earth story continues to develop, blending an intriguing mixture of geo-politics, chemistry and geology. There are now over 100 companies in the sector, but if our experience in the uranium sector during the boom of 2007 is correct, there will be few winners. The encouraging performance of both Neo-Materials and Great Western Minerals reflects their unique positions within the sector.

The outlook for the world's economies is most uncertain with the distinct possibility that the woes of the eurozone could spread. The unprecedented stimulus in the US having seemingly little effect on economic activity, it is difficult to know what ammunition policymakers have left to generate growth across the developed world.

Commodity prices have generally held up well during the period, particularly those that are not prey to financial flows, such as Coal, Iron Ore and Mineral Sands. We would caution that even these could be vulnerable in a global slowdown.

Finally, in this era of low interest rates, we fully recognise the importance of dividends and are always searching to add quality bonds and convertibles to the portfolio.

**Will Smith**

**Ian Francis**

New City Investment Managers

13 October 2011

## Classification of Investments by Stockmarket Quotation

As at 30 June 2011

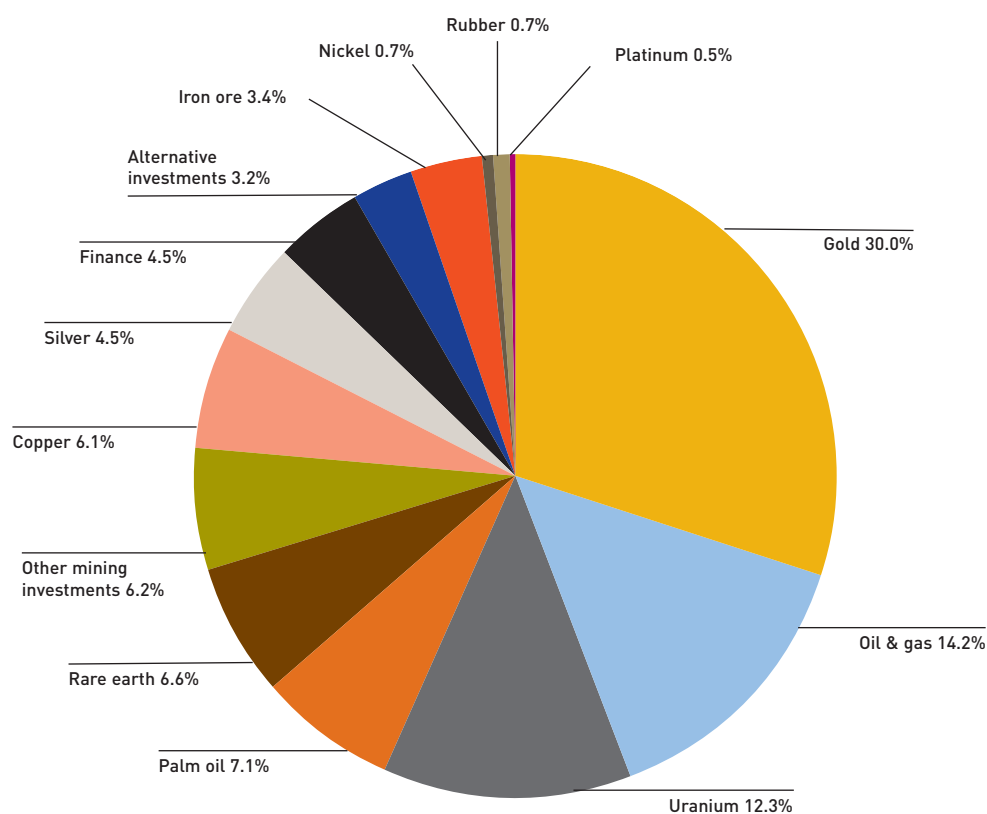
|                          | 2011<br>% of total<br>investments | 2010<br>% of total<br>investments |
|--------------------------|-----------------------------------|-----------------------------------|
| Australia                | 39.1                              | 35.7                              |
| Canada                   | 27.1                              | 25.8                              |
| United Kingdom           | 17.3                              | 22.5                              |
| United States            | 6.2                               | 4.1                               |
| Papua New Guinea         | 3.0                               | 0.1                               |
| Europe                   | 2.0                               | 2.5                               |
| Hong Kong                | –                                 | 1.0                               |
| Unquoted                 | 5.3                               | 8.3                               |
| <b>Total investments</b> | <b>100.0</b>                      | <b>100.0</b>                      |

## Sector Split by Resources

As at 30 June 2011

|                          | 2011<br>% of total<br>investments | 2010<br>% of total<br>investments |
|--------------------------|-----------------------------------|-----------------------------------|
| Gold                     | 30.0                              | 33.7                              |
| Oil & gas                | 14.2                              | 12.7                              |
| Uranium                  | 12.3                              | 12.8                              |
| Palm oil                 | 7.1                               | 7.5                               |
| Rare earth               | 6.6                               | 5.2                               |
| Other mining investments | 6.2                               | 3.3                               |
| Copper                   | 6.1                               | 3.2                               |
| Silver                   | 4.5                               | 6.1                               |
| Finance                  | 4.5                               | 3.9                               |
| Iron ore                 | 3.4                               | 4.2                               |
| Alternative investments  | 3.2                               | 3.9                               |
| Nickel                   | 0.7                               | 1.5                               |
| Rubber                   | 0.7                               | 0.8                               |
| Platinum                 | 0.5                               | 1.2                               |
| <b>Total investments</b> | <b>100.0</b>                      | <b>100.0</b>                      |

As at 30 June 2011

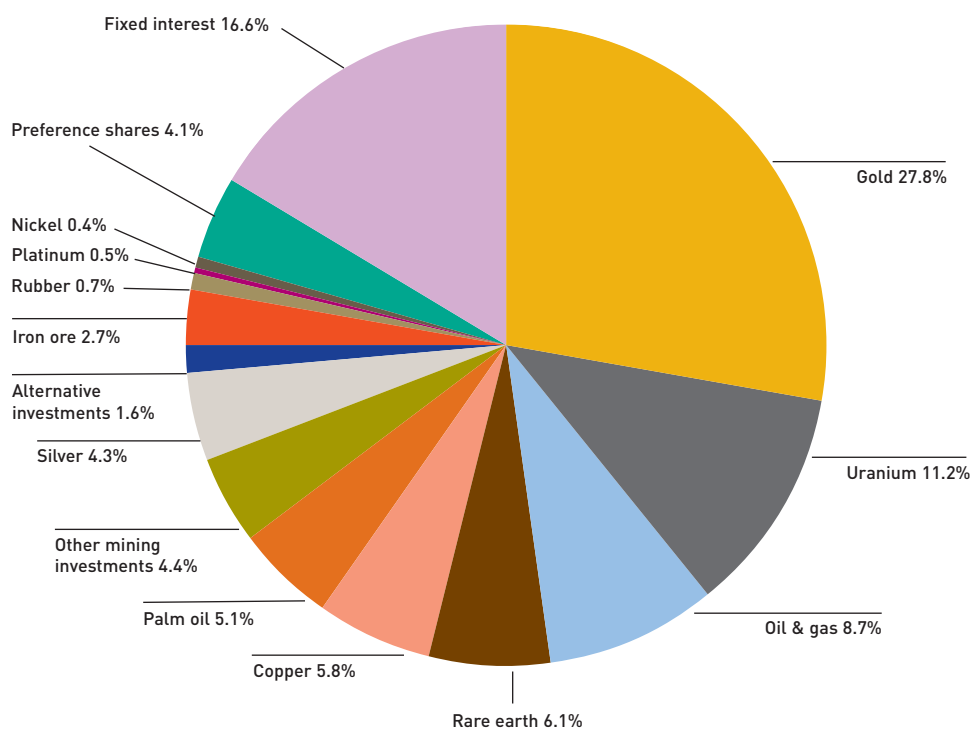


## Sector Split by Resources including Fixed Interest Securities

As at 30 June 2011

|                          | 2011<br>% of total<br>investments | 2010<br>% of total<br>investments |
|--------------------------|-----------------------------------|-----------------------------------|
| Gold                     | 27.8                              | 30.1                              |
| Uranium                  | 11.2                              | 10.5                              |
| Oil & gas                | 8.7                               | 7.4                               |
| Rare earth               | 6.1                               | 4.6                               |
| Copper                   | 5.8                               | 5.0                               |
| Palm oil                 | 5.1                               | 5.4                               |
| Other mining investments | 4.4                               | 2.7                               |
| Silver                   | 4.3                               | 3.8                               |
| Iron ore                 | 2.7                               | 2.5                               |
| Alternative investments  | 1.6                               | 2.4                               |
| Rubber                   | 0.7                               | 0.8                               |
| Platinum                 | 0.5                               | 1.2                               |
| Nickel                   | 0.4                               | 1.1                               |
| Preference shares        | 4.1                               | 2.4                               |
| Fixed interest           | 16.6                              | 20.1                              |
| <b>Total investments</b> | <b>100.0</b>                      | <b>100.0</b>                      |

As at 30 June 2011



# Investment Portfolio

As at 30 June 2011

| Company                                   | Sector               | Valuation<br>£'000 | % of Net<br>assets |
|-------------------------------------------|----------------------|--------------------|--------------------|
| Extract Resources                         | Uranium              | 10,381             | 4.4                |
| Kalahari Minerals <i>(Note 1) †</i>       | Uranium              | 10,165             | 4.3                |
| Ausgold <i>(Note 2) †</i>                 | Gold                 | 9,403              | 4.0                |
| REA Holdings <i>(Note 3)</i>              | Palm oil             | 7,640              | 3.2                |
| New Britain Palm Oil                      | Palm oil             | 7,555              | 3.2                |
| Neo Material Technologies <i>(Note 4)</i> | Rare earth           | 6,027              | 2.5                |
| Coalspur Mines                            | Coal                 | 4,811              | 2.0                |
| Perseus Mining                            | Gold                 | 4,087              | 1.7                |
| Extorre Gold Mines                        | Gold                 | 3,976              | 1.7                |
| Polar Star Mining                         | Copper               | 3,941              | 1.7                |
| <b>Top ten investments</b>                |                      | <b>67,986</b>      | <b>28.7</b>        |
| Rockgate Capital                          | Uranium              | 3,937              | 1.7                |
| Great Western Minerals <i>(Note 5)</i>    | Rare earth           | 3,706              | 1.5                |
| Horizon Oil <i>(Note 6)</i>               | Oil & gas            | 3,127              | 1.3                |
| Kingsrose Mining                          | Gold                 | 3,104              | 1.3                |
| Silver Wheaton Corp                       | Silver               | 3,081              | 1.3                |
| Equatorial Resources                      | Iron ore             | 3,017              | 1.3                |
| Rockridge Capital                         | Gold                 | 3,006              | 1.3                |
| Sandfire Resources                        | Copper               | 2,958              | 1.3                |
| Detour Gold <i>(Note 7)</i>               | Gold                 | 2,941              | 1.2                |
| First Australia Resources <i>(Note 8)</i> | Oil & gas            | 2,791              | 1.2                |
| <b>Top twenty investments</b>             |                      | <b>99,654</b>      | <b>42.1</b>        |
| First Quantum                             | Copper               | 2,721              | 1.2                |
| Silver Lake Resources                     | Silver               | 2,667              | 1.1                |
| Gryphon Minerals                          | Gold                 | 2,633              | 1.1                |
| Skipton Building Society <i>(Note 9)</i>  | Finance              | 2,535              | 1.1                |
| Fortuna Silver Mines                      | Silver               | 2,430              | 1.0                |
| Advance Energy 9.5% Cv 04/01/15           | Oil & gas            | 2,355              | 1.0                |
| Focus Minerals                            | Gold                 | 2,334              | 1.0                |
| Antares Energy 10% Cv 31/10/13            | Oil & gas            | 2,263              | 1.0                |
| Goldcorp                                  | Gold                 | 2,252              | 0.9                |
| Iluka Resources                           | Titanium             | 2,233              | 0.9                |
| <b>Top thirty investments</b>             |                      | <b>124,077</b>     | <b>52.4</b>        |
| Intrepid Mines                            | Gold                 | 2,139              | 0.9                |
| Santander <i>(Note 10)</i>                | Finance              | 2,104              | 0.9                |
| DDI Holding 9.3% 19/01/12                 | Oil & gas            | 2,088              | 0.9                |
| Paladin Energy <i>(Note 11)</i>           | Uranium              | 2,080              | 0.9                |
| Ferrous Resources *                       | Iron ore             | 2,068              | 0.9                |
| Western Area 8% Cv 02/07/12               | Oil & gas            | 2,049              | 0.9                |
| Newcrest Mining                           | Gold                 | 2,012              | 0.8                |
| Asian Plantations                         | Palm oil             | 2,002              | 0.8                |
| Patagonia Gold †                          | Gold                 | 1,899              | 0.8                |
| Newstrike Capital                         | Gold                 | 1,896              | 0.8                |
| <b>Top forty investments</b>              |                      | <b>144,414</b>     | <b>61.0</b>        |
| Dannemora 11.75% 22/03/16                 | Iron ore             | 1,873              | 0.8                |
| New Gold <i>(Note 12)</i>                 | Gold                 | 1,861              | 0.8                |
| Great Panther Silver                      | Silver               | 1,859              | 0.8                |
| Santos Finance 8.25% 22/09/70             | Oil & gas            | 1,847              | 0.7                |
| Societe Internationale de Plantations     | Rubber               | 1,781              | 0.7                |
| Iamgold                                   | Gold                 | 1,752              | 0.7                |
| Adamus Resources                          | Gold                 | 1,643              | 0.7                |
| Golden Prospect Precious Metals †         | Gold                 | 1,628              | 0.7                |
| Olympus Pacific Minerals                  | Gold                 | 1,613              | 0.7                |
| Consolidated Minerals 8.875% 01/05/16     | Diversified minerals | 1,542              | 0.7                |
| <b>Top fifty investments</b>              |                      | <b>161,813</b>     | <b>68.3</b>        |

# Investment Portfolio (continued)

As at 30 June 2011

| Company                                 | Sector       | Valuation<br>£'000 | % of Net<br>assets |
|-----------------------------------------|--------------|--------------------|--------------------|
| HBOS (Note 13)                          | Finance      | 1,540              | 0.7                |
| Mountain Province Diamonds              | Diamonds     | 1,516              | 0.7                |
| Kinross Gold (Note 14)                  | Gold         | 1,509              | 0.6                |
| Det Norske Oljes 9.78% FRN 28/01/16     | Oil & gas    | 1,468              | 0.6                |
| Golden Rim Resources                    | Gold         | 1,447              | 0.6                |
| European Gas                            | Oil & gas    | 1,440              | 0.6                |
| Crescent Point                          | Oil & gas    | 1,433              | 0.6                |
| Alkane Exploration                      | Rare earth   | 1,427              | 0.6                |
| Eldorado Gold                           | Gold         | 1,372              | 0.6                |
| APA Group                               | Oil & gas    | 1,357              | 0.6                |
| Top sixty investments                   |              | 176,322            | 74.5               |
| Lake Shore Gold                         | Gold         | 1,355              | 0.6                |
| GGG Resources                           | Gold         | 1,348              | 0.6                |
| Raven Russian 12% Cum Pref              | Property     | 1,315              | 0.6                |
| Skywest Airlines                        | Airlines     | 1,305              | 0.6                |
| Ramelius Resources                      | Gold         | 1,270              | 0.5                |
| RI Finance 6.125% 29/12/49              | Finance      | 1,255              | 0.5                |
| Osisko Exploration                      | Gold         | 1,254              | 0.5                |
| Odyssey Energy                          | Oil & gas    | 1,252              | 0.5                |
| Ocean Rig 9.5% 27/04/16                 | Oil & gas    | 1,230              | 0.5                |
| Galaxy Resources                        | Gold         | 1,210              | 0.5                |
| Top seventy investments                 |              | 189,116            | 79.9               |
| National Westminster 9% Non Cum Pref    | Finance      | 1,210              | 0.5                |
| Uranium One                             | Uranium      | 1,197              | 0.5                |
| TAG Oil                                 | Oil & gas    | 1,181              | 0.5                |
| Mineral Deposits                        | Gold         | 1,159              | 0.5                |
| Balfour Beatty 10.75% Cum Pref          | Construction | 1,126              | 0.5                |
| Independence Group                      | Nickel       | 1,124              | 0.5                |
| Ecclesiastical Insurance 8.625% Pref    | Finance      | 1,095              | 0.5                |
| Aberdeen Asset Management 7.9% 29/05/49 | Finance      | 1,011              | 0.4                |
| Metals Exploration 9% Cv 01/08/11 **    | Gold         | 1,000              | 0.4                |
| Northern Minerals                       | Rare earth   | 960                | 0.4                |
| Top eighty investments                  |              | 200,179            | 84.6               |
| Other investments                       |              | 53,566             | 22.6               |
| Total investments                       |              | 253,745            | 107.2              |
| Net current assets                      |              | (16,957)           | (7.2)              |
| <b>Net assets</b>                       |              | <b>236,788</b>     | <b>100.0</b>       |

Note 1 - Includes Kalahari Minerals 10% Cv 31/08/11 valued at £1,750,000 \*\*

Note 2 - Includes warrants valued at £5,401,440

Note 3 - Includes REA Holdings Cum Pref valued at £4,511,022 and REA Finance 9.5% 31/12/17 valued at £525,000

Note 4 - Includes Neo Material Technologies 5% Cv 31/12/17 valued at £1,250,864

Note 5 - Includes warrants valued at £1,279,822 \*

Note 6 - Includes Horizon Oil 5.5% 17/6/16 valued at £485,845

Note 7 - Includes Detour Gold 5.5% Cv 30/11/17 valued at £689,059

Note 8 - Includes First Australia Resources 15% Cv 31/01/12 valued at £1,333,689

Note 9 - Includes Skipton 10% 12/12/18 valued at £1,485,081 and Skipton 6.75% 30/05/22 valued at £1,050,000

Note 10 - Includes Santander Non Cum Pref Shares valued at £1,050,000 and Santander 11.3% 27/07/49 valued at £1,053,800

Note 11 - Includes Paladin 5% 11/03/13 valued at £820,253

Note 12 - Includes warrants valued at £212,254 and New Gold 10% 28/06/17 valued at £689,465

Note 13 - Includes HBOS 6.461% 29/11/49 valued at £801,900 and HBOS Cap 6.85% Perp valued at £737,737

Note 14 - Includes warrants valued at £37,644

\* Denotes an unquoted security

\*\* Denotes an unquoted convertible security that is convertible into a listed security.

† Denotes a related party investment see Note 18.

# Directors' Report

The Directors have pleasure in presenting the Annual Report and Accounts of the Company for the year ended 30 June 2011.

## Results and Dividends

|                                                                     |       |
|---------------------------------------------------------------------|-------|
| The results for the year are set in the attached accounts.          | £'000 |
| Current year net revenue available for dividends                    | 3,404 |
| Dividends on ordinary shares:                                       |       |
| First interim dividend of 0.69p per share paid on 26 November 2010  | 461   |
| Second interim dividend of 0.69p per share paid on 25 February 2011 | 461   |
| Third interim dividend of 0.69p per share paid on 25 May 2011       | 461   |
| Fourth interim dividend of 2.15p per share paid on 26 August 2011   | 1,437 |

Note: The fourth interim dividend of 2.15p per share relates to the year ended 30 June 2011; however, under UK GAAP it will be accounted for in the year ended 30 June 2012.

## Principal Activity and Status

The Company is registered as a public limited company in terms of the Companies Act 2006 (number: 02978531). The Company is an investment company within the terms of Section 833 of the Companies Act 2006. Its shares are listed on the official list and traded on the main market of the London Stock Exchange. The Company has been approved by HM Revenue & Customs as an investment trust under Section 1158 of Corporation Tax Act 2010 (previously Section 842 of the Income and Corporation Taxes Act 1988) for the year ended 30 June 2010. As a result it is not liable to corporation tax on capital gains. In the opinion of the Directors, the Company has subsequently conducted its affairs so as to enable it to continue to obtain approval as an investment trust.

The Company is required by law to comply with company law, the rules of the UK Listing Authority the Admission and Disclosure Standards of London Stock Exchange plc, UK Financial Reporting Standards, and its Articles of Association.

The Company conducted its affairs so as to be a qualifying investment as defined by HM Revenue & Customs regulations for inclusion in the stocks and shares component of an Individual Savings Account. It is the current intention of the Directors that the Company will continue to conduct its affairs to satisfy these qualifying investment requirements. For more details refer to the shareholder information on page 43.

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

## Capital Structure

As at 30 June 2011 there were 66,857,143 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. At 30 June 2011 the Company had a bank facility of £30.0 million of which £17.4 million was drawn down at the year end; this ranked for repayment ahead of any capital return to shareholders.

## Cumulative Unsecured Loan Stock 2018 ('CULS')

On 26 September 2011 the Company issued £40,000,000 nominal of 3.5% Convertible Unsecured Loan Stock 2018 ('CULS'). 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 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 each year; the conversion price will be 377.18p nominal CULS for one ordinary share.

## Business Review

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

The following review provides information about the Company's business and results for the period to 30 June 2011 and covers:

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

A review of the Company's business during the year, the position of the Company at the year end, and outlook for the coming year is contained in the Chairman's Statement and the Investment Manager's Review.

## Directors' Report (continued)

### **Investment objective**

The Company seeks 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. The Company aims to outperform, in total return terms, a composite benchmark, which is weighted two-thirds to the HSBC Global Mining Index (sterling adjusted) and one-third to the Credit Suisse High Yield Index (sterling adjusted).

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

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

### **Dividends**

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

In the year ended 30 June 2011, the Company paid dividends totalling 3.92p per share and declared a further dividend of 2.15p per share which was paid after the year end, on 26 August 2011. Based on an annualised rate of 4.22p and a share price of 260.0p at 11 October 2011, this represents a yield of 1.6 per cent.

### **Management and administration**

As part of its strategy for achieving its objectives, the Board has delegated the management of the investment portfolio to CQS Cayman Limited Partnership ('CQS'), which in turn has delegated management to CQS Asset Management Limited which trades as New City Investment Managers ('NCIM') with Will Smith and Ian Francis as the fund managers.

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

Administration services and the services of Company Secretary are provided by F&C Asset Management plc. The Company has served notice on F&C Asset Management plc terminating its appointment as the Company's administrator and secretary with effect from 21 November 2011. The Company intends to appoint R&H Fund Services (UK) Limited as its administrator with effect from 21 November 2011.

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

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

## Directors' Report (continued)

### **Principal Risks and Risk Mitigation**

The Board carefully considers the Company's principal risks and seeks to mitigate these risks through continued and regular review, policy setting, compliance with and enforcement of contractual obligations and active communication with the Investment Manager, the Administrator and shareholders.

The Board applies the principles and recommendations of The UK Corporate Governance Code and the AIC's Code of Corporate Governance as described on pages 16 and 17. It also applies the principles detailed in the internal control guidance issued by the Financial Reporting Council. Details of the Company's internal controls are described in more detail on page 18.

The Company's assets consist principally of listed equities and fixed interest securities and its principal risks are therefore market related. The Company is also exposed to currency risk in respect of the markets in which it invests. More detailed explanations of these risks and the way in which they are managed are contained in note 17 of the financial statements.

Other risks faced by the Company are summarised below. Mitigation of these risks is sought and achieved in many ways as described in italics below.

External: events such as terrorism, disease, protectionism, inflation or deflation, changes in taxation, excessive stock market speculation, economic recessions, political instability and movements in interest rates and exchange rates could affect share prices in particular markets.

*Portfolio diversification, both geographical and sectoral, can mitigate the consequences of such risky events. It is also possible to raise the level of cash, thereby reducing the risk of declining share prices and the effect of gearing on lower portfolio valuations. However, the portfolio's liquidity is not managed on the basis of market timing short term fluctuations.*

Investment and strategy: inappropriate strategy, including country and sector allocation, stock selection and the use of gearing could all lead to poor returns for shareholders.

*At each Board Meeting the Investment Manager discusses portfolio performance and strategy with the Directors and provides the Board and shareholders with monthly reports. The portfolio is well diversified thereby reducing stock-specific risk. The Board formally reviews the performance of the Investment Manager and its terms of appointment annually.*

Gearing: one of the benefits of an investment trust is its ability to use borrowings, which can enhance returns to shareholders in a rising stock market. However, gearing exacerbates movements in the NAV both positively and negatively and will exaggerate declines in NAV when share prices of investee companies are falling.

*The Board is responsible for setting the gearing range within which the Investment Manager may operate; the current maximum level of gearing permitted is 25% of shareholders funds at the point of drawdown. It receives recommendations on gearing levels from the Investment Manager, and monitors and discusses with the Investment Manager the appropriate level of gearing at each Board Meeting.*

Regulatory: breach of regulatory rules could lead to suspension of the Company's Stock Exchange listing, financial penalties or a qualified audit report. 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 Administrator 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.*

Operational: failure of the Investment Manager's systems or disruption to the Investment Manager's business, or those of the Administrator's or third party service providers could lead to an inability to provide accurate reporting and monitoring or a breach of Sections 1158 to 1159 of the Corporation Tax Act 2010.

*The Board reviews operational issues in detail at each Board Meeting and the Audit Committee receives reports on the operation of internal controls, as explained in more detail within Internal Controls on page 18.*

Financial: inadequate controls by the Investment Manager or Administrator or other third party service providers could lead to misappropriation of assets or a breach of Sections 1158 to 1159 of the Corporation Tax Act 2010. Inappropriate accounting policies or failure to comply with accounting standards could lead to misreporting or breaches of regulations.

*The Board reviews financial reports in detail at each Board Meeting.*

Reputational: inadequate or deficient controls of the Investment Manager or Administrator or other third party providers might result in breaches of regulations and damage the trust and confidence of shareholders in the Company and lead to an increase in the discount.

*The Board continually monitors and reviews issues that may impact the standing of the Company and lead to an increase in the discount.*

## Directors' Report (continued)

### **Performance measurement and key performance indicators**

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

- Net asset value total return against benchmark;
- Discount of share price to net asset value;
- Dividend policy; and
- Total expenses as a ratio of shareholders' funds.

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

A review of the Company's returns during the financial year, the position of the Company at the year end and the outlook for the coming year is contained within the Chairman's Statement on pages 4 and 5 and the Investment Manager's Review on page 6.

Net assets at 30 June 2011 amounted to £236.8 million with a net asset value per ordinary share of 354.2p.

The Investment Manager's Review on page 6 provides a review of the investment portfolio (as detailed on pages 10 and 11) and market conditions during the year.

### **Bank facilities**

The Company has a bank facility with HSBC Bank plc. The limit of the HSBC facility is £30.0 million, of which £17.4 million was drawn down, at the year end.

The use of borrowings by the Company may increase the volatility of the net asset value per share, i.e. a movement may result in a magnified movement, either favourable or unfavourable in the net asset value of the Company.

### **Directors' Interests**

Biographies of the Directors are shown on page 3.

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

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

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

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

|               | Ordinary shares<br>2011 | Ordinary shares<br>2010 |
|---------------|-------------------------|-------------------------|
| G D C Burns   | 90,000                  | 90,000                  |
| A J R Collins | 50,000                  | 50,000                  |
| A D Cooke     | 165,500                 | 165,500                 |
| B M L Coulson | 27,143                  | 27,143                  |
| R Ö Prickett  | 12,500                  | 12,500                  |

There has been no change in the ordinary share holdings of the Directors between 30 June 2011 and 13 October 2011.

On 26 September 2011 Mr Burns acquired 20,192 3.5% Convertible Unsecured Loan Stock 2018 ('CULS'). Mr Collins acquired 22,434 CULS and Mr Cooke acquired 10,000 CULS.

### **Investment Managers' Interests**

The beneficial and non-beneficial interests of the key employees, directors or officers of the Investment Manager in the shares of the Company as at 30 June 2011 were:

|              | Ordinary shares<br>2011 | Ordinary shares<br>2010 |
|--------------|-------------------------|-------------------------|
| I Francis*   | –                       | –                       |
| R A Lockwood | 410,000                 | 410,000                 |
| J M Roberts* | –                       | –                       |
| W Smith      | 16,500                  | 16,500                  |

\*Mr Roberts was co-manager of the Company with Mr Smith until October 2011, at which time he was succeeded as co-manager by Mr Francis.

## Directors' Report (continued)

There has been no change in the ordinary share holdings of those employees, directors or officers of the Investment Manager between 30 June 2011 and 13 October 2011.

On 26 September 2011 Mr Lockwood acquired 64,000 3.5% Convertible Unsecured Loan Stock 2018 ('CULS') and Mr Smith acquired 7,000 CULS.

### Substantial Interests in Share Capital

At 13 October 2011 the only persons known to the Company who, directly or indirectly, were interested in 3.0 per cent or more of the Company's issued share capital were as follows:

|                                       | Number of<br>ordinary shares<br>held | Percentage<br>held |
|---------------------------------------|--------------------------------------|--------------------|
| Henderson Global Investors            | 3,884,504                            | 5.8                |
| Jupiter Asset Management              | 3,320,618                            | 5.0                |
| Reliance Mutual                       | 3,305,000                            | 4.9                |
| SVM Asset Management                  | 2,750,000                            | 4.1                |
| Rathbones                             | 2,710,982                            | 4.0                |
| West Yorkshire Super Fund Trustee     | 2,700,000                            | 4.0                |
| South Yorkshire Pensions Authority    | 2,654,723                            | 4.0                |
| Legal & General Investment Management | 2,389,868                            | 3.6                |
| Brewin Dolphin Securities             | 2,386,379                            | 3.6                |
| Killik & Co                           | 2,090,961                            | 3.1                |

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

### Management and Management Fees

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

### Corporate Governance

Arrangements in respect of corporate governance, appropriate to an investment trust have been made by the Board. The Board has considered the principles and recommendations of the AIC's Code of Corporate Governance issued in October 2010 by reference to the AIC Corporate Governance Guide for Investment Companies (the 'AIC Guide'). The AIC Code, as explained by the AIC Guide, addresses the main principles set out in the UK Corporate Governance Code, issued by the Financial Reporting Council in June 2010 as well as setting out additional principles and recommendations on issues which are of specific relevance to investment trusts. The Board considers that reporting against the AIC Code and by reference to the AIC Guide (which incorporates the UK Corporate Governance Code), will provide better information to shareholders than if it had adopted the UK Corporate Governance Code.

Except as disclosed, the Company has complied throughout the year with the relevant provisions of the AIC Code, and the relevant provisions of the UK Corporate Governance Code and it is the intention of the Board that the Company will comply with those provisions throughout the year ending 30 June 2012. Since all the Directors are non-executive, the Company is not required to comply with the provisions of the Code of in respect of Directors' remuneration except in so far as they relate specifically to non-executive Directors. 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. As described on page 3 all Directors except Mr Cooke, who is an employee of the Investment Manager, 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 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 A Collins and Mr A Cooke are 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.

## Directors' Report *(continued)*

The Company's Articles of Association require that all Directors will retire by rotation at least every three years and 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, from this year onwards, all Directors will retire annually and, if appropriate, seek re-election. The Board subscribes to the view expressed in the AIC Code that long-serving Directors should not be prevented from forming part of an independent majority. It does not consider that a Director's tenure necessarily reduces his or her ability to act independently and, following formal performance evaluations, believes that each Director is independent in character and judgement and that there are no relationships or circumstances which are likely to affect the judgement of any Director. The Board's policy on tenure is that continuity and experience are considered to add significantly to the strength of the Board and, as such, no limit on the overall length of services of any of the Company's Directors, including the Chairman, has been imposed. The Company has no executive Directors or employees.

A management agreement between the Company and its Investment Manager, CQS, sets out the matters over which the Investment Manager has authority and the limits beyond which Board approval must be sought. All other matters, including corporate strategy, investment and dividend policies, gearing, and corporate governance procedures, are reserved for the approval of the Board of Directors. The Board currently meets four times a year and receives full information about the Company's investment performance, assets, liabilities and other relevant information in advance of Board meetings. In between these formal meetings, there is regular contact on a less formal basis between the Directors, the Company Secretary, Administrators and the Investment Manager. The Directors may, at the expense of the Company, seek independent professional advice on any matter that concerns them in the furtherance of their duties. The Investment Manager, in the absence of explicit instructions from the Board, is empowered to exercise discretion in the use of the Company's voting rights. All shareholdings are voted, where practicable in accordance with the Investment Manager's own corporate governance policy, which is to seek to maximise shareholder value by constructive use of votes at company meetings and by endeavouring to use their influence as investors with a principled approach to corporate governance.

### **Board Committees**

#### *Audit Committee*

The Audit Committee is chaired by Mr R Prickett and comprises all of the Directors except Mr A Cooke. The Audit Committee operates within clearly defined terms of reference and has recent and relevant financial experience. The duties of the Audit Committee in discharging its responsibilities include reviewing the Annual and Interim Accounts, the system of internal controls and the terms of appointment of the auditor together with their remuneration. It also ensures that auditor objectivity and independence is safeguarded in the provision of non-audit services by the auditor. It provides a forum through which the auditor may report to the Board of Directors and meets at least twice yearly. The Audit Committee reviews the scope and results of the audit, its cost effectiveness and the independence and objectivity of the auditor, with particular regard to non-audit fees. Such fees amounted to £33,000 for the year ended 30 June 2011 (2010: £23,000) and related principally to the provision of taxation services and advice, more details are included in Note 4. Notwithstanding such services the Audit Committee considers KPMG Audit Plc to be independent of the Company and that the provision of such non-audit services is not a threat to the objectivity and independence of the conduct of the audit.

#### *Management Engagement and Remuneration Committee*

The Management Engagement and Remuneration Committee is chaired by Mr Burns, comprises the full Board excluding Mr Cooke and Mr Collins and reviews the appropriateness of the Investment Manager's continuing appointment together with the terms and conditions thereof on a regular basis.

#### *Nomination Committee*

The Nomination Committee is chaired by Mr Burns, comprises the full Board excluding Mr Cooke and is convened for the purpose of considering the appointment of additional Directors as and when considered appropriate. In considering appointments to the Board, the Nomination Committee takes into account the ongoing requirements of the Company and the need to have a balance of skills, experience, length of service and knowledge of the Company within the Board.

#### *Performance evaluation*

During the year the performance of the Board, Committees and individual Directors (including the Chairman) was evaluated through a forum based assessment process. The Chairman regularly reviews and agrees with each Director their training and development needs. The Board confirms that the performance of each of the Directors continues to be effective and demonstrates commitment to the role and recommends to

## Directors' Report (continued)

shareholders the approval of Resolutions 2 to 6 contained in the Notice of the Annual General Meeting on page 44 relating to the Directors seeking re-election.

The following table sets out the number of Board and committee meetings held during the year ended 30 June 2011 and the number of meetings attended by each Director. Individual Directors may, at the expense of the Company, seek independent professional advice on any matter that concerns them in the furtherance of their duties.

|               | Board of Directors |          | Audit Committee |          | Management Engagement Committee |          | Nomination Committee |          |
|---------------|--------------------|----------|-----------------|----------|---------------------------------|----------|----------------------|----------|
|               | Held               | Attended | Held            | Attended | Held                            | Attended | Held                 | Attended |
| G D C Burns   | 4                  | 4        | 2               | 2        | 1                               | 1        | 1                    | 1        |
| A J R Collins | 4                  | 3        | 2               | 2        | 1                               | n/a      | 1                    | 1        |
| A D Cooke     | 4                  | 3        | 2               | n/a      | 1                               | n/a      | 1                    | n/a      |
| B M L Coulson | 4                  | 4        | 2               | 2        | 1                               | 1        | 1                    | 1        |
| R Ö Prickett  | 4                  | 3        | 2               | 2        | 1                               | 1        | 1                    | 1        |

### 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 9 within the notice of Annual General Meeting on pages 44 and 45. If any such 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, 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.

### Internal Controls

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. The Board has therefore established an ongoing process designed to meet the particular needs of the Company in managing the risks to which it is exposed, consistent with the internal control guidance issued by the Financial Reporting Council. The process relies principally on the Investment Manager's existing risk-based approach to internal control whereby a test matrix is created that identifies the key functions carried out by the Investment Manager and other service providers, the individual activities undertaken within those functions, the risks associated with each activity and the controls employed to minimise those risks. A residual risk rating is then applied. The test matrix is regularly updated and the Board is provided with regular reports highlighting all material changes to the risk ratings and confirming the action which has been, or is being, taken. A formal annual review of these procedures is carried out by the Audit Committee and includes consideration of internal control reports issued by the Investment Manager and other service providers. Such review procedures have been in place throughout the financial year and up to the date of approval of the Annual Report and the Board is satisfied with their effectiveness. These procedures are designed to manage rather than eliminate the risk of failure to meet business objectives and, by their nature, can provide reasonable, but not absolute, assurance against material misstatement or loss. The Board monitors the investment performance of the Company in comparison to the benchmark index and to comparable venture capital trusts at each Board meeting. The Board also reviews the Company's activities since the last Board meeting to ensure that the Investment Manager adheres to the published investment policy and approved investment guidelines and, if necessary, approve changes to such policy and guidelines, although no material change may be made to the Company's published investment policy, as set out on page 13, without the prior approval of shareholders by passing an ordinary resolution.

The Board has reviewed the need for an internal audit function. The Board has decided that the systems and procedures employed by the Investment Manager, including the internal audit function within F&C Asset Management plc and the review of its AAF 01/06 Report by a firm of external auditor, provide sufficient assurance that a sound system of internal control is maintained. In addition the Company's financial statements are audited by external auditor. An internal audit function, specific to the Company, is therefore considered unnecessary.

## Directors' Report (continued)

### Financial Statements

The Directors' responsibilities regarding the financial statements and safeguarding of assets are set out on page 23. The Directors acknowledge that their responsibility to present a balanced and understandable assessment extends to interim and other price sensitive public reports to regulators as well as to information required to be presented by statutory requirements.

### Directors' Authority to Allot Shares

The Directors are seeking authority to allot shares. Resolution 10 will, if passed, authorise the Directors to allot new shares up to an aggregate nominal amount of £1,669,757, being 9.99 per cent of the total issued shares as at 13 October 2011 (excluding any treasury shares).

Resolution 11, 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. Resolution 11 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 2012, 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 12, 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 2012.

### Treasury Shares

The Directors propose to seek approval for the issue of ordinary shares that may be held in treasury from time to time for a price that represents a premium to the net asset value per share and is more than the price at which such shares were bought back by the Company. Resolution 13 is conditional upon the passing of Resolution 11 which also authorises the sale of treasury shares for cash without offering such shares first to all existing shareholders. The Directors do not intend to issue more than 4.99 per cent, in aggregate, of total issued share capital, either in treasury in accordance with Resolution 13, or ordinary shares in accordance with Resolution 11. The exercise of this authority will expire at the conclusion of the Annual General Meeting in 2012, unless the authority is renewed.

### Environment

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

### Relations with Shareholders

The Company welcomes the views of shareholders and places great importance on communication with its shareholders. The Annual General Meeting of the Company provides a forum, both formal and informal, for shareholders to meet and discuss issues with the Directors and the Investment Manager of the Company. The Company Secretary is available to answer general shareholder queries at anytime throughout the year. The notice for the forthcoming Annual General Meeting to be held on 6 December 2011 is set out on pages 44 and 45.

## Directors' Report (continued)

### Creditor Payment Policy

It is the policy of the Company to settle all investment transactions in accordance with the terms and conditions of the relevant markets in which it operates. All other expenses are paid on a timely basis in the ordinary course of business.

### Whistleblowing

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

### Disclosure to Auditor

The Directors confirm that, so far as each of the Directors is aware, there is no relevant information of which the Company's auditor 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 auditor are aware of that information.

### Auditor

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

### Individual Savings Account

The Company's shares are qualifying investments as defined by HM Revenue & Customs' regulations for Individual Savings Accounts. It is the intention of the Directors that the Company will continue to conduct its affairs to satisfy this requirement.

### Financial Instruments

The Company's financial instruments comprise its investment portfolio, cash balances, bank facility, debtors and creditors that arise directly from its operations such as sales and purchases awaiting settlement and accrued income. The financial risk management objectives and policies arising from its financial instruments and exposure of the Company to risk are disclosed in note 17 of the financial statements.

### 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 is most likely to promote the success of the Company for the benefit of its shareholders as a whole. Accordingly, the Directors unanimously recommends that shareholders should vote in favour of the resolutions, as they intend to do in respect of their own beneficial shareholdings amounting to 345,143 ordinary shares.

By Order of the Board

### F&C Asset Management plc

Secretary

80 George Street  
Edinburgh EH2 3BU

13 October 2011

# Directors' Remuneration Report

The Board has prepared this report in accordance with the requirements of the Companies Act 2006. An ordinary resolution for the approval of this report will be put to shareholders at the forthcoming Annual General Meeting.

The law requires the Company's auditor to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The auditor's opinion is included in the Independent Auditor's Report.

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

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

## Policy on Directors' Fees

The Board's policy is that the remuneration of non-executive Directors should reflect the experience of the Board as a whole, be fair and comparable to that of other relevant investment 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 2012 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 2011 was £87,000. 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.

## Directors' Service Contracts

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

The terms of Directors' appointments provide that Directors should retire and be subject to 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 from this year onwards, 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.

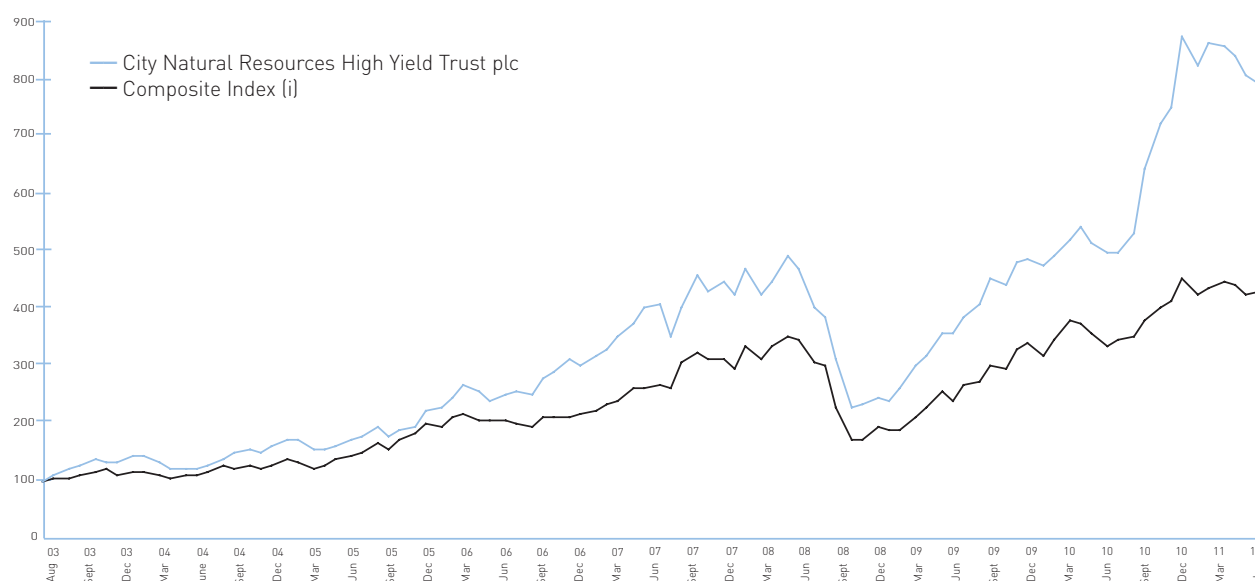
| Director      | Date of Appointment | Due date for re-election |
|---------------|---------------------|--------------------------|
| G D C Burns   | 29 June 2005        | AGM 2011                 |
| A J R Collins | 14 December 1995    | AGM 2011                 |
| A D Cooke     | 26 June 2003        | AGM 2011                 |
| B M L Coulson | 26 June 2003        | AGM 2011                 |
| R Ö Prickett  | 30 November 2006    | AGM 2011                 |

## 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 13. The graph on page 22 compares, for the financial year ended 30 June 2011, 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 HSBC 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. An explanation of the performance of the Company for the year ended 30 June 2011 is given in the Chairman's Statement and Investment Manager's Review.

# Directors' Remuneration Report (continued)

## Share Price Total Return and Composite Index Total Return Performance Graph



Source: Datastream

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

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

## Directors' Emoluments for the Year (audited)

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

|                   | Fees<br>2011<br>£'000 | Fees<br>2010<br>£'000 |
|-------------------|-----------------------|-----------------------|
| G D C Burns*      | 22                    | 18                    |
| A J R Collins**†  | 17                    | 15                    |
| A D Cooke         | 16                    | 14                    |
| B M L Coulson     | 16                    | 14                    |
| R Ö Prickett***†† | 16                    | 14                    |
|                   | <b>87</b>             | <b>75</b>             |

from 1 January 2011 Directors' fees were increased as follows: Chairman £25,000 (previously £18,000); Audit Committee Chairman £20,000 (previously £15,000); Directors £18,000 (previously £14,000). The Board concluded following a review of the level of Directors' fee that they should remain unchanged for the 2011/2012 year.

\* Chairman

\*\* Chairman of Audit Committee during the year

\*\*\*Current Chairman of the Audit Committee

† Fees paid to Fincorp International Ltd

†† Fees paid to European Sales Company Ltd

On behalf of the Board

**Geoff Burns**

Chairman

13 October 2011

## 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 and applicable law (UK Generally Accepted Accounting Practice).

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 Corporate Governance Statement that complies with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board

**Geoff Burns**

Chairman

13 October 2011

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

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

We have audited the financial statements of City Natural Resources High Yield Trust plc for the year ended 30 June 2011 set out on pages 25 to 42. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 23, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

## Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Opinion on other matters prescribed by the Companies Act 2006

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 Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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;

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 18, in relation to going concern;
- the part of the Corporate Governance Statement on pages 16 and 17 relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

**Gareth Horner (Senior Statutory Auditor)**  
**for and on behalf of KPMG Audit Plc, Statutory Auditor**

Chartered Accountants  
Edinburgh

13 October 2011



# Income Statement

for the year ended 30 June 2011

|                                                          | Notes    | Year ended<br>30 June 2011 |                  |                | Year ended<br>30 June 2010 |                  |                |
|----------------------------------------------------------|----------|----------------------------|------------------|----------------|----------------------------|------------------|----------------|
|                                                          |          | Revenue<br>£'000           | Capital<br>£'000 | Total<br>£'000 | Revenue<br>£'000           | Capital<br>£'000 | Total<br>£'000 |
| Gains on investments                                     | 9        | –                          | 86,661           | 86,661         | –                          | 40,840           | 40,840         |
| Exchange losses                                          |          | –                          | (122)            | (122)          | –                          | (394)            | (394)          |
| Income                                                   | 2        | 5,447                      | –                | 5,447          | 5,060                      | –                | 5,060          |
| Investment management fee                                | 3        | (676)                      | (2,028)          | (2,704)        | (431)                      | (1,294)          | (1,725)        |
| Other expenses                                           | 4        | (534)                      | 11               | (523)          | (423)                      | (12)             | (435)          |
| <b>Net return before finance costs and taxation</b>      |          | <b>4,237</b>               | <b>84,522</b>    | <b>88,759</b>  | <b>4,206</b>               | <b>39,140</b>    | <b>43,346</b>  |
| Interest payable and similar charges                     | 5        | (88)                       | (264)            | (352)          | (61)                       | (182)            | (243)          |
| <b>Net return on ordinary activities before taxation</b> |          | <b>4,149</b>               | <b>84,258</b>    | <b>88,407</b>  | <b>4,145</b>               | <b>38,958</b>    | <b>43,103</b>  |
| Tax on ordinary activities                               | 6        | (745)                      | 638              | (107)          | (957)                      | 417              | (540)          |
| <b>Net return attributable to equity shareholders</b>    |          | <b>3,404</b>               | <b>84,896</b>    | <b>88,300</b>  | <b>3,188</b>               | <b>39,375</b>    | <b>42,563</b>  |
| <b>Return per ordinary share</b>                         | <b>8</b> | <b>5.09p</b>               | <b>126.98p</b>   | <b>132.07p</b> | <b>4.88p</b>               | <b>60.21p</b>    | <b>65.09p</b>  |

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.

## Reconciliation of Movements in Shareholders' Funds

|                                                  | Year ended<br>30 June<br>2011<br>£'000 | Year ended<br>30 June<br>2010<br>£'000 |
|--------------------------------------------------|----------------------------------------|----------------------------------------|
| Opening equity shareholders' funds               | 151,109                                | 107,316                                |
| Gains on investments                             | 86,661                                 | 40,840                                 |
| Net return attributable to ordinary shareholders | 3,404                                  | 3,188                                  |
| Costs charged to capital                         | (1,643)                                | (1,071)                                |
| Exchange losses                                  | (122)                                  | (394)                                  |
| Exercise of warrants                             | –                                      | 3,343                                  |
| Dividends paid                                   | (2,621)                                | (2,113)                                |
| <b>Closing equity shareholders' funds</b>        | <b>236,788</b>                         | <b>151,109</b>                         |

# Balance Sheet

as at 30 June 2011

|                                                       | Notes | As at<br>30 June<br>2011<br>£'000 | As at<br>30 June<br>2010<br>£'000 |
|-------------------------------------------------------|-------|-----------------------------------|-----------------------------------|
| <b>Fixed assets</b>                                   |       |                                   |                                   |
| Investments                                           | 9     | 253,745                           | 160,293                           |
| <b>Current assets</b>                                 |       |                                   |                                   |
| Debtors                                               | 10    | 1,636                             | 1,089                             |
| Cash at bank and on deposit                           |       | 57                                | 4,382                             |
|                                                       |       | 1,693                             | 5,471                             |
| <b>Creditors: amounts falling due within one year</b> | 11    | (18,650)                          | (14,655)                          |
| <b>Net current liabilities</b>                        |       | (16,957)                          | (9,184)                           |
| <b>Net assets</b>                                     |       | 236,788                           | 151,109                           |
| <b>Capital and reserves</b>                           |       |                                   |                                   |
| Called-up share capital                               | 12    | 16,714                            | 16,714                            |
| Special distributable reserve                         | 13    | 30,386                            | 30,386                            |
| Share premium                                         | 13    | 4,753                             | 4,753                             |
| Capital reserve                                       | 13    | 180,356                           | 95,460                            |
| Revenue reserve                                       | 13    | 4,579                             | 3,796                             |
| <b>Equity shareholders' funds</b>                     |       | 236,788                           | 151,109                           |
| <b>Net asset value per ordinary share</b>             | 14    | 354.17p                           | 226.02p                           |

The financial statements on pages 25 to 42 were approved by the Board of Directors on 13 October 2011 and were signed on its behalf by:

Geoff Burns, Chairman

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

# Cash Flow Statement

for the year to 30 June 2011

|                                                                    | Notes | Year ended<br>30 June<br>2011<br>£'000 | Year ended<br>30 June<br>2010<br>£'000 |
|--------------------------------------------------------------------|-------|----------------------------------------|----------------------------------------|
| <b>Operating activities</b>                                        |       |                                        |                                        |
| Investment income received                                         |       | 5,103                                  | 4,833                                  |
| Deposit interest received                                          |       | 7                                      | 2                                      |
| Other income received                                              |       | 35                                     | 90                                     |
| VAT on management fees received                                    |       | 180                                    | –                                      |
| Investment management fees paid                                    |       | (2,626)                                | (1,686)                                |
| Other cash payments                                                |       | (593)                                  | (520)                                  |
| Net cash inflow from operating activities                          | 15    | 2,106                                  | 2,719                                  |
| <b>Servicing of finance</b>                                        |       |                                        |                                        |
| Interest on bank facility                                          |       | (343)                                  | (291)                                  |
| Net cash outflow from servicing of finance                         |       | (343)                                  | (291)                                  |
| <b>Taxation</b>                                                    |       |                                        |                                        |
| Tax paid                                                           |       | (461)                                  | (70)                                   |
| <b>Capital expenditure and financial investment</b>                |       |                                        |                                        |
| Purchases of investments                                           |       | (127,226)                              | (74,180)                               |
| Disposals of investments                                           |       | 120,103                                | 68,937                                 |
| Net cash outflow from capital expenditure and financial investment |       | (7,123)                                | (5,243)                                |
| <b>Dividends</b>                                                   |       |                                        |                                        |
| Equity dividends paid                                              |       | (2,621)                                | (2,113)                                |
| Net cash outflow before financing                                  |       | (8,442)                                | (4,998)                                |
| <b>Financing</b>                                                   |       |                                        |                                        |
| Bank facility draw down                                            |       | 4,239                                  | 1,161                                  |
| Issue of ordinary shares following warrant exercise                |       | –                                      | 3,343                                  |
| Net cash inflow from financing                                     |       | 4,239                                  | 4,504                                  |
| <b>Decrease in cash</b>                                            | 16    | (4,203)                                | (494)                                  |
| <b>Reconciliation of net cash flow to movement in net debt</b>     |       |                                        |                                        |
| Decrease in cash in the year                                       | 16    | (4,203)                                | (494)                                  |
| Cash inflow from draw down of bank facility                        | 16    | (4,239)                                | (1,161)                                |
| Exchange losses                                                    | 16    | (122)                                  | (394)                                  |
| <b>Movement in net debt in the year</b>                            |       | (8,564)                                | (2,049)                                |
| Opening net debt at 1 July                                         |       | (8,779)                                | (6,730)                                |
| <b>Closing net debt at 30 June</b>                                 | 16    | (17,343)                               | (8,779)                                |

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

# Notes to the Financial Statements

## 1. Accounting policies

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

### (a) Basis of Accounting

These financial statements are prepared on the going concern basis under the historic cost convention, modified to include the revaluation of fixed asset investments.

The financial statements have been prepared under UK Generally Accepted Accounting Practice ('UK GAAP') and in accordance with the Statement of Recommended Practice ('SORP'), revised January 2009, for Investment Trust Companies and Venture Capital Trusts and issued by the Association of Investment Companies ('AIC').

### 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 unlisted 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. Unlisted investments are valued by the Directors on the basis of all the information available to them at the time of valuation. This includes a review of: the financial and trading information of the Company, covenant compliance, ability to 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.

## Notes to the Financial Statements (continued)

### (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) 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.

(e) Warrant reserve – warrants issued are classified as equity and the net proceeds held in this reserve.

If a warrant is exercised then the amount previously recognised in respect of the warrant is transferred to the share premium account.

# Notes to the Financial Statements (continued)

## 2. Income

|                                 | 2011<br>£'000 | 2010<br>£'000 |
|---------------------------------|---------------|---------------|
| <b>Income from investments*</b> |               |               |
| UK dividend income              | 865           | 410           |
| UK unfranked investment income  | 1,179         | 858           |
| Overseas dividends              | 846           | 435           |
| Overseas interest               | 2,515         | 3,265         |
|                                 | <b>5,405</b>  | 4,968         |
| <b>Other income†</b>            |               |               |
| Deposit interest                | 7             | 2             |
| Other income                    | 35            | 90            |
|                                 | <b>42</b>     | 92            |
| <b>Total income</b>             | <b>5,447</b>  | 5,060         |
| <b>Total income comprises:</b>  |               |               |
| Dividends                       | 1,711         | 845           |
| Fixed interest securities       | 3,694         | 4,123         |
| Deposit interest                | 7             | 2             |
| Other income                    | 35            | 90            |
|                                 | <b>5,447</b>  | 5,060         |

\*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

|                           | 2011<br>Revenue<br>£'000 | 2011<br>Capital<br>£'000 | 2011<br>Total<br>£'000 | 2010<br>Revenue<br>£'000 | 2010<br>Capital<br>£'000 | 2010<br>Total<br>£'000 |
|---------------------------|--------------------------|--------------------------|------------------------|--------------------------|--------------------------|------------------------|
| Investment management fee | 676                      | 2,028                    | 2,704                  | 431                      | 1,294                    | 1,725                  |

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 three 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 £228,000 (2010 – £150,000).

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

## Notes to the Financial Statements (continued)

### 4. Other expenses (including irrecoverable VAT)

|                                               | 2011<br>Revenue<br>£'000 | 2011<br>Capital<br>£'000 | 2011<br>Total<br>£'000 | 2010<br>Revenue<br>£'000 | 2010<br>Capital<br>£'000 | 2010<br>Total<br>£'000 |
|-----------------------------------------------|--------------------------|--------------------------|------------------------|--------------------------|--------------------------|------------------------|
| Secretarial and administration fees           | 141                      | –                        | 141                    | 116                      | –                        | 116                    |
| Directors' fees                               | 87                       | –                        | 87                     | 75                       | –                        | 75                     |
| Auditor remuneration for:                     |                          |                          |                        |                          |                          |                        |
| – statutory audit                             | 23                       | –                        | 23                     | 22                       | –                        | 22                     |
| – other services pursuant to such legislation | –                        | –                        | –                      | 7                        | –                        | 7                      |
| – other services relating to taxation         | 8                        | –                        | 8                      | 15                       | –                        | 15                     |
| – other services                              | 25                       | –                        | 25                     | 1                        | –                        | 1                      |
| Other                                         | 250                      | (11)                     | 239                    | 187                      | –                        | 187                    |
|                                               | 534                      | (11)                     | 523                    | 423                      | –                        | 423                    |

The Company has an agreement with F&C Asset Management plc ("F&C") for the provision of secretarial services. During the year the total fees paid and payable were £141,000 (2010: £116,000). The balance due to F&C for secretarial services at the year end was £Nil (2010: £Nil). The Company has served notice on F&C terminating its appointment as the Company's administrator and secretary with effect from 21 November 2011. The Company intends to appoint R&H Fund Services (UK) Limited as its administrator with effect from 21 November 2011.

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

The Company does not have any employees.

Included within other expenses is £15,000 received in respect of the VAT of management fees refund. These amounts recovered have been allocated between revenue and capital in the same ratio as the VAT originally suffered.

### 5. Interest payable and similar charges

|               | 2011<br>Revenue<br>£'000 | 2011<br>Capital<br>£'000 | 2011<br>Total<br>£'000 | 2010<br>Revenue<br>£'000 | 2010<br>Capital<br>£'000 | 2010<br>Total<br>£'000 |
|---------------|--------------------------|--------------------------|------------------------|--------------------------|--------------------------|------------------------|
| Bank facility | 88                       | 264                      | 352                    | 61                       | 182                      | 243                    |

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

Interest payable is on financial liabilities that are not valued at fair value through the Income Statement.

## Notes to the Financial Statements (continued)

### 6a. Tax on ordinary activities

|                              | 2011<br>Revenue<br>£'000 | 2011<br>Capital<br>£'000 | 2011<br>Total<br>£'000 | 2010<br>Revenue<br>£'000 | 2010<br>Capital<br>£'000 | 2010<br>Total<br>£'000 |
|------------------------------|--------------------------|--------------------------|------------------------|--------------------------|--------------------------|------------------------|
| Corporation tax              | 682                      | (638)                    | 44                     | 924                      | (417)                    | 507                    |
| Prior year adjustment        | (43)                     | –                        | (43)                   | (9)                      | –                        | (9)                    |
| Relief for overseas taxation | (29)                     | –                        | (29)                   | (37)                     | –                        | (37)                   |
| Overseas taxation            | 135                      | –                        | 135                    | 83                       | –                        | 83                     |
| Current tax charge/(credit)  | 745                      | (638)                    | 107                    | 961                      | (417)                    | 544                    |
| Deferred tax                 | –                        | –                        | –                      | (4)                      | –                        | (4)                    |
| Total tax charge/(credit)    | 745                      | (638)                    | 107                    | 957                      | (417)                    | 540                    |

### 6b. Reconciliation of tax charge

A reconciliation of the current tax charge is set out below:

|                                               | 2011<br>Total<br>£'000 | 2010<br>Total<br>£'000 |
|-----------------------------------------------|------------------------|------------------------|
| Return on ordinary activities before taxation | 88,407                 | 43,103                 |
| Corporation tax at standard rate              | 24,754                 | 12,069                 |
| Effects of :                                  |                        |                        |
| Non taxable income                            | (479)                  | (237)                  |
| Non taxable gains                             | (24,265)               | (11,435)               |
| Overseas withholding tax                      | 135                    | 83                     |
| Double taxation relief                        | (29)                   | (37)                   |
| Non deductible exchange losses                | 34                     | 110                    |
| Prior year adjustment                         | (43)                   | (9)                    |
| Current year tax charge                       | 107                    | 544                    |

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.

## Notes to the Financial Statements (continued)

### 7. Dividends

|                                                                                                      | 2011<br>Revenue<br>£'000 | 2010<br>Revenue<br>£'000 |
|------------------------------------------------------------------------------------------------------|--------------------------|--------------------------|
| <b>Amounts recognised as distributions to equity holders in the year:</b>                            |                          |                          |
| – Fourth interim dividend for the year ended 30 June 2010 of 1.85p (2009 – 1.42p) per ordinary share | 1,238                    | 894                      |
| – First interim dividend for the year ended 30 June 2011 of 0.69p (2010 – 0.62p) per ordinary share  | 461                      | 389                      |
| – Second interim dividend for the year ended 30 June 2011 of 0.69p (2010 – 0.62p) per ordinary share | 461                      | 415                      |
| – Third interim dividend for the year ended 30 June 2011 of 0.69p (2010 – 0.62p) per ordinary share  | 461                      | 415                      |
|                                                                                                      | <b>2,621</b>             | <b>2,113</b>             |
| <b>Amounts relating to the year but not paid at the year end:</b>                                    |                          |                          |
| – Fourth interim dividend for the year ended 30 June 2011 of 2.15p (2010 – 1.85p) per ordinary share | 1,437                    | 1,238                    |

In accordance with UK GAAP the fourth quarterly dividends have not been included as liabilities in these accounts.

### 8. Return per ordinary share

|                | 2011<br>Revenue<br>pence | 2011<br>Capital<br>pence | 2011<br>Total<br>pence | 2010<br>Revenue<br>pence | 2010<br>Capital<br>pence | 2010<br>Total<br>pence |
|----------------|--------------------------|--------------------------|------------------------|--------------------------|--------------------------|------------------------|
| Ordinary share | 5.09p                    | 126.98p                  | 132.07p                | 4.88p                    | 60.21p                   | 65.09p                 |

The revenue return per ordinary share is based on a net profit after taxation of £3,404,000 (2010: £3,188,000) and on a weighted average of 66,857,143 ordinary shares in issue during the year (2010: 65,391,728).

The basic capital return per ordinary share is based on a net capital gain of £84,896,000 (2010: a net capital gain of £39,375,000) and on a weighted average of 66,857,143 ordinary shares in issue during the year (2010: 65,391,728).

# Notes to the Financial Statements (continued)

## 9. Investments

|                                                               | 2011<br>£'000  | 2010<br>£'000 |
|---------------------------------------------------------------|----------------|---------------|
| Investments listed/quoted on a recognised investment exchange | 240,210        | 147,029       |
| Unquoted investments                                          | 13,535         | 13,264        |
|                                                               | <b>253,745</b> | 160,293       |
| Equity shares                                                 | 195,996        | 123,016       |
| Placings                                                      | 5,312          | 1,121         |
| Preference shares                                             | 10,307         | 3,856         |
| Fixed income securities                                       | 24,301         | 15,729        |
| Convertible securities                                        | 17,829         | 16,571        |
|                                                               | <b>253,745</b> | 160,293       |

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.

Financial Reporting Standard 29 'Financial Instruments: Disclosures' (the Standard) 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<br>Listed in UK<br>£'000 | Level 1<br>Listed Overseas<br>£'000 | Level 3<br>£'000 | Total<br>£'000 |
|----------------------------------------------|----------------------------------|-------------------------------------|------------------|----------------|
| Opening book cost                            | 27,860                           | 81,216                              | 23,165           | 132,241        |
| Opening fair value adjustment                | 8,206                            | 29,747                              | (9,901)          | 28,052         |
| Opening valuation                            | 36,066                           | 110,963                             | 13,264           | 160,293        |
| Movements in the year:                       |                                  |                                     |                  |                |
| Purchases at cost                            | 13,437                           | 108,101                             | 5,875            | 127,413        |
| Conversions/transfers                        | 1,500                            | 1,453                               | (2,953)          | –              |
| Sales – proceeds                             | (15,380)                         | (102,460)                           | (2,782)          | (120,622)      |
| – realised gains on sale                     | 3,157                            | 37,455                              | 241              | 40,853         |
| Increase/(decrease) in fair value adjustment | 14,782                           | 31,136                              | (110)            | 45,808         |
| Closing valuation                            | 53,562                           | 186,648                             | 13,535           | 253,745        |
| Closing book cost                            | 30,574                           | 125,765                             | 23,546           | 179,885        |
| Closing fair value adjustment                | 22,988                           | 60,883                              | (10,011)         | 73,860         |
| Closing valuation                            | 53,562                           | 186,648                             | 13,535           | 253,745        |

The gains and losses included in the above table have all been recognised within gains on Investments in the Income Statement on page 25. 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.

## Notes to the Financial Statements (continued)

### 9. Investments (continued)

During the year to 30 June 2011 sales of Level 3 securities included the following:

|                                  | Opening<br>valuation<br>£'000 | Sales<br>proceeds<br>£'000 | Conversion<br>£'000 | Cost<br>£'000 | Closing<br>valuation<br>£'000 |
|----------------------------------|-------------------------------|----------------------------|---------------------|---------------|-------------------------------|
| Stratic Energy 8.75% Cv 27/04/11 | 501                           | 634                        | –                   | 537           | –                             |
| Odyssey 5.85% Cv 13/04/11        | –                             | 499                        | 339                 | 669           | –                             |
| Petaquilla Minerals 5% 21/05/13  | 217                           | 243                        | –                   | 166           | –                             |

|                        | 2011<br>£'000 | 2010<br>£'000 |
|------------------------|---------------|---------------|
| Realised gains on sale | 40,853        | 21,668        |
| Movement in fair value | 45,808        | 19,172        |
| Gains on investments   | 86,661        | 40,840        |

During the year the Company incurred transaction costs on the purchases of £139,135 (2010: £112,306) and transaction costs on sales of £320,058 (2010: £118,382).

### 10. Debtors

|                                | 2011<br>£'000 | 2010<br>£'000 |
|--------------------------------|---------------|---------------|
| Amounts due from brokers       | 557           | 38            |
| Prepayments and accrued income | 1,059         | 876           |
| VAT on management fees         | –             | 165           |
| VAT recoverable                | 20            | 10            |
|                                | 1,636         | 1,089         |

## Notes to the Financial Statements (continued)

### 11. Creditors: amounts falling due within one year

|                           | 2011<br>£'000 | 2010<br>£'000 |
|---------------------------|---------------|---------------|
| Bank facility             | 17,400        | 13,161        |
| Amounts due to brokers    | 735           | 548           |
| Interest on bank facility | 32            | 23            |
| Corporation tax           | 193           | 680           |
| Other creditors           | 290           | 243           |
|                           | <b>18,650</b> | 14,655        |

A bank facility of £30.0 million is in place with HSBC Bank plc of which £17.4 million was drawn down at the year end. The facility is unsecured and incurs interest at the base rate plus 1.75% per annum, payable monthly. The facility is repayable on-demand.

On 26 September 2011 the Company issued £40,000,000 nominal of 3.5% Convertible Unsecured Loan Stock 2018 ('CULS'). 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 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 each year; the conversion price will be 377.18p nominal CULS for one ordinary share.

£20.6 million of the bank facility was drawn down on 26 September 2011 and this was repaid in full. No balance is currently drawn down.

Included within other creditors is £228,000 (2010: £150,000) due to CQS in respect of management fees.

### 12. Share capital

|                                                      | 2011<br>Shares | 2010<br>Shares | 2011<br>£'000 | 2010<br>£'000 |
|------------------------------------------------------|----------------|----------------|---------------|---------------|
| <b>Authorised at 30 June</b>                         |                |                |               |               |
| Ordinary shares of 25p each                          | 100,000,000    | 100,000,000    | 25,000        | 25,000        |
|                                                      |                |                |               |               |
|                                                      | 2011<br>Shares | 2010<br>Shares | 2011<br>£'000 | 2010<br>£'000 |
| <b>Allotted, called up and fully-paid at 30 June</b> |                |                |               |               |
| Ordinary shares of 25p each                          | 66,857,143     | 66,857,143     | 16,714        | 16,714        |

On 13 November 2009 the Company issued 3,932,914 ordinary shares of 25p each following the final exercise of the warrants. Following this there were 66,857,143 ordinary shares of 25p in issue.

The capital of the Company is managed in accordance with its investment policy, in pursuit of its investment objective, both of which are detailed in the Directors' Report on page 13.

The Company does not have any externally imposed capital requirements.

# Notes to the Financial Statements (continued)

## 13. Reserves

|                                    | Special<br>reserve<br>£'000 | Share<br>premium<br>£'000 | Capital<br>reserve<br>£'000 | Revenue<br>reserve<br>£'000 |
|------------------------------------|-----------------------------|---------------------------|-----------------------------|-----------------------------|
| <b>Company</b>                     |                             |                           |                             |                             |
| At 30 June 2010                    | 30,386                      | 4,753                     | 95,460                      | 3,796                       |
| Exchange losses                    | –                           | –                         | (122)                       | –                           |
| Gains on investments               | –                           | –                         | 86,661                      | –                           |
| Management fees charged to capital | –                           | –                         | (2,028)                     | –                           |
| Finance costs charged to capital   | –                           | –                         | (264)                       | –                           |
| Taxation credited to capital       | –                           | –                         | 638                         | –                           |
| Dividends paid                     | –                           | –                         | –                           | (2,621)                     |
| Retained net revenue for the year  | –                           | –                         | –                           | 3,404                       |
| Capitalised other expenses         | –                           | –                         | 11                          | –                           |
| At 30 June 2011                    | 30,386                      | 4,753                     | 180,356                     | 4,579                       |

The special reserve is available for the buying back of shares. £4,579,000 is available for distribution as a dividend as represented in the revenue reserve.

## 14. Net asset value per ordinary share

The net asset value per ordinary share is based on net assets of £236.8 million (2010: £151.1 million) and on 66,857,143 (2010: 66,857,143) ordinary shares, being the number of ordinary shares in issue at the year end.

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

|                                              | 2011<br>£'000   | 2010<br>£'000 |
|----------------------------------------------|-----------------|---------------|
| Net return before finance costs and taxation | <b>88,759</b>   | 43,346        |
| Gains on investment                          | <b>(86,661)</b> | (40,840)      |
| Withholding tax suffered                     | <b>(133)</b>    | (83)          |
| Increase in accrued income                   | <b>(168)</b>    | (52)          |
| Decrease in other debtors                    | <b>140</b>      | 2             |
| Increase/(decrease) in other creditors       | <b>47</b>       | (48)          |
| Exchange losses                              | <b>122</b>      | 394           |
| Net cash inflow from operating activities    | <b>2,106</b>    | 2,719         |

# Notes to the Financial Statements (continued)

## 16. Analysis of changes in net debt

|                          | At<br>30 June<br>2010<br>£'000 | Cash<br>flow<br>£'000 | Currency<br>movements<br>£'000 | At<br>30 June<br>2011<br>£'000 |
|--------------------------|--------------------------------|-----------------------|--------------------------------|--------------------------------|
| Cash at bank and in hand | 4,382                          | (4,203)               | (122)                          | 57                             |
| Bank facility            | (13,161)                       | (4,239)               | –                              | (17,400)                       |
|                          | (8,779)                        | (8,442)               | (122)                          | (17,343)                       |

## 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 makes use of flexible borrowings for short term purposes, as detailed in note 11 and the Chairman's Statement, 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. Unlisted investments are valued by the Directors on the basis of all the information available to them at the time of valuation. The fair value of all other financial assets and liabilities is represented by their carrying value in the Balance Sheet shown on page 26. The fair value of the bank facility 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 the 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:

|                              | 2011<br>£'000 | 2010<br>£'000 |
|------------------------------|---------------|---------------|
| <b>Financial instruments</b> |               |               |
| Investment portfolio         | 253,745       | 160,293       |
| Cash at bank and on deposit  | 57            | 4,382         |
| Amounts due from brokers     | 557           | 38            |
| Accrued income               | 1,034         | 866           |
| Other debtors                | 45            | 185           |
| <b>Financial liabilities</b> |               |               |
| Bank facility                | 17,400        | 13,161        |
| Amounts due to brokers       | 735           | 548           |
| Bank facility interest due   | 32            | 23            |
| Other creditors              | 483           | 923           |

# Notes to the Financial Statements (continued)

## 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 10 and 11.

If the investment portfolio valuation fell by 10 per cent at 30 June 2011, the impact on the profit or loss and the net asset value would have been negative £25.4 million (2010: negative £16.0 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.

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 £87,000 (2010: £65,805). If the bank base rate had decreased by 0.5 per cent, the impact on the profit or loss would have been equal and opposite. The calculations are based on borrowings as at the respective balance sheet dates and are not representative of the year as a whole.

At the year end, the Company had a bank facility of £30.0 million with HSBC, details of which are contained in note 11 on page 36.

# Notes to the Financial Statements (continued)

## Interest rate risk (continued)

### Fixed rate

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

|                                         | 2011<br>£'000 | 2011<br>Weighted<br>average<br>interest<br>rate (%)* | 2011<br>Weighted<br>average<br>period for<br>which the<br>rate is fixed<br>(years) | 2010<br>£'000 | 2010<br>Weighted<br>average<br>interest<br>rate(%)* | 2010<br>Weighted<br>average<br>period for<br>which the<br>rate is fixed<br>(years) |
|-----------------------------------------|---------------|------------------------------------------------------|------------------------------------------------------------------------------------|---------------|-----------------------------------------------------|------------------------------------------------------------------------------------|
| <b>Assets:</b>                          |               |                                                      |                                                                                    |               |                                                     |                                                                                    |
| Fixed income and convertible securities | 42,130        | 9.1                                                  | 8.5                                                                                | 32,300        | 8.8                                                 | 4.2                                                                                |
| Preference shares                       | 10,307        | 9.7                                                  | n/a                                                                                | 3,856         | 9.5                                                 | 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:

|                       | 2011<br>Investments<br>£'000 | 2011<br>Cash<br>£'000 | 2011<br>Net<br>current<br>assets<br>£'000 | 2011<br>Total<br>£'000 | 2010<br>Investments<br>£'000 | 2010<br>Cash<br>£'000 | 2010<br>Net<br>current<br>assets<br>£'000 | 2010<br>Total<br>£'000 |
|-----------------------|------------------------------|-----------------------|-------------------------------------------|------------------------|------------------------------|-----------------------|-------------------------------------------|------------------------|
| Australian Dollar     | 100,604                      | (401)                 | 752                                       | 100,955                | 58,175                       | 37                    | 139                                       | 58,351                 |
| Canadian Dollar       | 72,685                       | –                     | 44                                        | 72,729                 | 43,840                       | –                     | (121)                                     | 43,719                 |
| US Dollar             | 20,033                       | –                     | 270                                       | 20,303                 | 13,046                       | 755                   | 226                                       | 14,027                 |
| Papua New Guinea Kina | 7,555                        | –                     | –                                         | 7,555                  | 152                          | –                     | –                                         | 152                    |
| Euro                  | 4,549                        | –                     | 95                                        | 4,644                  | 3,336                        | –                     | 86                                        | 3,422                  |
| Norwegian Kroner      | 1,468                        | –                     | 25                                        | 1,493                  | 1,535                        | –                     | 47                                        | 1,582                  |
| Hong Kong Dollar      | –                            | –                     | –                                         | –                      | 1,581                        | –                     | –                                         | 1,581                  |
|                       | 206,894                      | (401)                 | 1,186                                     | 207,679                | 121,665                      | 792                   | 377                                       | 122,834                |

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 £10.4 million (2010: positive £6.1 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 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.

## Notes to the Financial Statements (continued)

### 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:

|                                           | 2011<br>£'000 | 2010<br>£'000 |
|-------------------------------------------|---------------|---------------|
| Cash and cash equivalents                 | 57            | 4,382         |
| Balances due from brokers                 | 557           | 38            |
| Interest, dividends and other receivables | 1,079         | 1,051         |
|                                           | <b>1,693</b>  | <b>5,471</b>  |

Credit risk on fixed interest investments is considered to be part of market price risk. As at 30 June 2011 and as at 13 October 2011 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 2011 and as at 30 June 2010. No individual investment exceeded 4.4 per cent of the total assets less current liabilities attributable to the Company's shareholders at 30 June 2011 (2010: 4.8 per cent).

As at 30 June 2011, the Company held 3 per cent or more of issued share capital of the following companies:

|                      | Number of<br>ordinary shares held | Percentage<br>held |
|----------------------|-----------------------------------|--------------------|
| Rockridge Capital    | 5,750,000                         | 10.27              |
| Polar Star Mining    | 8,980,500                         | 9.93               |
| Odyssey Energy       | 41,464,200                        | 9.49               |
| Brazilian Metals     | 8,800,000                         | 6.02               |
| Renaissance Minerals | 3,715,000                         | 5.22               |
| Montero Mining       | 2,000,000                         | 4.73               |
| Gallic Energy        | 2,835,000                         | 4.35               |
| Stonehenge Metals    | 10,681,940                        | 3.96               |
| Golden Rim Resources | 14,000,000                        | 3.89               |
| Ausgold              | 4,000,000                         | 3.74               |
| Minbos Resources     | 2,500,000                         | 3.66               |
| Riedel Resources     | 2,000,000                         | 3.44               |
| Wessex Exploration   | 15,000,000                        | 3.13               |
| GGG Resources        | 5,790,000                         | 3.03               |
| Carbine Resources    | 3,250,000                         | 3.02               |
| Castle Minerals      | 3,000,000                         | 3.01               |

## Notes to the Financial Statements (continued)

### Liquidity risk

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

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

|                                                                             | 2011<br>£'000 | 2010<br>£'000 |
|-----------------------------------------------------------------------------|---------------|---------------|
| Unquoted investments:                                                       |               |               |
| Unquoted convertible securities that are convertible into listed securities | 5,072         | 8,340         |
| Unquoted equities (including placings)                                      | 7,529         | 3,705         |
| Unquoted bonds                                                              | 934           | 1,219         |
|                                                                             | 13,535        | 13,264        |

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

The Company maintains sufficient cash, has short term bank facility and readily realisable securities to pay accounts payable and accrued expenses. The Company also maintains sufficient cash and readily realisable securities to meet any demand repayments on its 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 2011, the Company held shares in New City Energy and Golden Prospect Precious Metals, 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.

Mr Lockwood is a non-executive director of Kalahari Minerals. At the year end the Company held 3,600,000 Kalahari Minerals ordinary shares valued at £8,415,000 and 1,750,000 Kalahari Minerals 10% Cv 31/08/11 valued at £1,750,000.

Mr Lockwood is also a non-executive director of Ausgold. At the year end the Company held 4,000,000 Ausgold ordinary shares valued at £4,001,000 and 6,000,000 Ausgold warrants valued at £5,402,000.

Mr Prickett is a non-executive director of Patagonia Gold. At the year end the Company held 3,712,500 shares in Patagonia Gold valued at £1,899,000.

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 21 and 22, 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 page 15.

The balance due to Directors for fees at the year end was £Nil (2010: £3,750).

## Shareholder Information

### Retail Plan Savers

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

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

### The Investment Plan

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

### The ISA

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

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

### Transfer of other ISAs into the New City Investment Managers ISA

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

### Disposal of Shareholdings

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

### Net Asset Value/Share Price

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

# Notice of Annual General Meeting

Notice is hereby given that the sixteenth Annual General Meeting of City Natural Resources High Yield Trust plc will be held at The Scottish Malt Whisky Society, 28 Queen Street, Edinburgh EH2 1JX, at 12.30pm on Tuesday, 6 December 2011 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 2011, together with the auditor's report thereon.
2. To re-elect Mr G D C Burns, who retires annually, be re-elected as a Director.
3. To re-elect Mr A J R Collins, who retires annually, be re-elected as a Director.
4. To re-elect Mr A D Cooke, who retires annually, be re-elected as a Director.
5. To re-elect Mr B M L Coulson, who retires annually, be re-elected as a Director.
6. To re-elect Mr R Ö Prickett, who retires annually, be re-elected as a Director.
7. To re-appoint KPMG Audit Plc as auditor and to authorise the Directors to agree their remuneration.
8. To approve the Directors' Remuneration Report for the year ended 30 June 2011.

## *Special Business*

As special business, to consider the following resolutions, which will be proposed as Ordinary Resolutions:

9. That, the Company continues as an investment trust pursuant to the undertaking given by the Board in 2003.
10. 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 £1,669,757, such authorisation to expire at the conclusion of the next annual general meeting of the Company to be held in 2012, 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 the following resolutions which will be proposed as Special Resolutions:

11. That, subject to the passing of resolution 10 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 Act, to allot equity securities (as defined in Section 560 of the Act) either pursuant to the authorisation under section 551 of the 2006 Act conferred on the Directors of the Company by such resolution numbered 8, or by way of a sale of treasury shares in each case for cash, as if section 561(1) of the 2006 Act did not apply to any such allotment:
  - (i) other than pursuant to sub-paragraph (ii) below, up to an aggregate nominal amount of £834,043 (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 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 2012 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 to 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.

## Notice of Annual General Meeting (continued)

12. That, in substitution for any existing authority but without prejudice to the exercise of any such authority to the date of this resolution, the Company be and is hereby authorised in accordance with Section 701 of the Companies Act 2006 Act ("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 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 be the higher of not more than (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 2012 or, if earlier, at the conclusion of the Annual General Meeting of the Company to be held in 2012 unless such authority is renewed prior to such time;
  - (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.
13. That, conditional upon the passing of Resolution 11 above, the Company be authorised, for the purposes of the Listing Rules of the United Kingdom Listing Authority, to issue ordinary shares of 25 pence each in the capital of the Company at a price above the net asset value per share of the existing ordinary shares in issue provided always that such issue shall be limited to:
- (i) the sale of shares which, immediately before such sale were held by the Company as treasury shares;
  - (ii) a sale price which represents a premium to net asset value per share and is more than the price at which such shares were bought back by the Company; and
  - (iii) unless renewed, the authority hereby conferred is to expire on the conclusion of the Annual General Meeting of the Company to be held in 2012.

### F&C Asset Management plc

Secretary

80 George Street  
Edinburgh EH2 3BU

13 October 2011

### Notes

1. Information about this meeting is available from the Investment Manager's website; [www.ncim.co.uk](http://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 6.00 pm on 4 December 2011. 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.

## Notice of Annual General Meeting (continued)

### Notes (continued)

5. As at 9.00 am on 13 October 2011, the Company's issued Share Capital comprised 66,857,143 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 13 October 2011 is 66,857,143.
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](http://www.euroclear.com/CREST). 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.
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](http://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.

# Proxy

## City Natural Resources High Yield Trust plc

I/We \_\_\_\_\_

(BLOCK LETTERS PLEASE)

of \_\_\_\_\_

being a member of **City Natural Resources High Yield Trust plc**, hereby appoint the Chairman of the meeting, or<sup>1</sup>.

as my/our proxy to attend, vote and speak for me/us on my/our behalf at the Annual General Meeting of the Company, to be held at The Scottish Malt Whisky Society, 28 Queen Street, Edinburgh EH2 1JX on Tuesday, 6 December 2011 at 12.30pm, on the following resolutions to be submitted to the meeting and at any adjournment thereof.

This form or proxy relates to \_\_\_\_\_ ordinary shares held by me /us in the Company (see note 8).

☐ Please tick here if this proxy appointment is one of multiple appointments being made. For the appointment of more than one proxy, please refer to note 8 below.

Please indicate with an 'X' in the appropriate spaces how you wish your votes to be cast. Unless otherwise instructed, the proxy will vote as he thinks fit or abstain.

| Resolutions                                                                                                | For | Against | Abstain<br>(Note 7) |
|------------------------------------------------------------------------------------------------------------|-----|---------|---------------------|
| <b>Ordinary Business</b>                                                                                   |     |         |                     |
| 1. To receive the Report and Accounts for the year ended 30 June 2011.                                     |     |         |                     |
| 2. To re-elect Mr G D C Burns as a Director.                                                               |     |         |                     |
| 3. To re-elect Mr A J R Collins as a Director.                                                             |     |         |                     |
| 4. To re-elect Mr A D Cooke as a Director.                                                                 |     |         |                     |
| 5. To re-elect Mr B M L Coulson as a Director.                                                             |     |         |                     |
| 6. To re-elect Mr R Ö Prickett as a Director.                                                              |     |         |                     |
| 7. To re-appoint KPMG Audit Plc as Auditor and to authorise the Directors to determine their remuneration. |     |         |                     |
| 8. To approve the Directors' Remuneration Report for the year ended 30 June 2011.                          |     |         |                     |
| <b>Special Business</b>                                                                                    |     |         |                     |
| 9. That the Company continue as an investment trust.                                                       |     |         |                     |
| 10. To authorise the Directors to allot relevant securities.                                               |     |         |                     |
| 11. To empower the Directors to allot equity securities without regard to statutory pre-emption rights.    |     |         |                     |
| 12. To renew the Directors' authority to make market purchases of ordinary shares.                         |     |         |                     |
| 13. To issue treasury shares at a premium to net asset value per ordinary share.                           |     |         |                     |

Signature \_\_\_\_\_

Dated \_\_\_\_\_ Day of \_\_\_\_\_ 2011

### Notes

1. You may, if you wish, in the space provided insert the name(s) of the person(s) of your choice to attend and vote at the meeting on your behalf. Delete the words 'the Chairman of the Meeting or' and initial the alteration. A proxy need not be a Member of the Company but must attend the meeting to represent you. If you wish your proxy to speak on your behalf at the Meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them.
2. In the case of a corporation, the proxy, must be either under its common seal or signed by a duly authorised officer or attorney.
3. In order to have effect, together with any power of attorney or other authority (if any) under which it is signed, or a certified copy thereof, the proxy must be deposited at the Company's Registrars, Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6ZR at least 48 hours before the time of the meeting.
4. In the case of a joint holding, a proxy need only be signed by one joint holder. If more than one such joint holder lodges a proxy only that of the holder first on the register will be counted.
5. Any alterations made in this proxy should be initialled.
6. Completion of a proxy shall not prevent a shareholder from attending and voting at the Annual General Meeting in person should you so wish.
7. The 'Abstain' option is provided to enable you to abstain on the resolutions. However, it should be noted that a vote abstained is not a vote in law and will not be counted in the calculation of the proportion of the votes (For) and (Against) the resolutions.
8. If no number of shares is entered, the proxy will be authorised to act on your behalf in relation to your entire shareholding in the Company. To appoint more than one proxy, please photocopy this form and submit it to the Company's Registrars in accordance with note 3, on each proxy form, please enter the number of shares in relation to which that proxy is authorised to act on your behalf. The total number of shares entered on all the proxy forms you submit must not exceed the number of shares you hold in the Company. All forms must be signed and should be returned together in the same envelope.



## Corporate Information

|                                      |                                                                                                                                                                                                                                                                                                                                                                                  |
|--------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Registered Number</b>             | 02978531                                                                                                                                                                                                                                                                                                                                                                         |
| <b>Registered Office</b>             | <b>F&amp;C Asset Management plc</b><br>Exchange House<br>Primrose Street<br>London EC2A 2NY                                                                                                                                                                                                                                                                                      |
| <b>Directors</b>                     | <b>Geoffrey D C Burns (Chairman)</b><br><b>Adrian J R Collins</b><br><b>Adam D Cooke</b><br><b>B Michael L Coulson</b><br><b>Richard Ö Prickett*</b>                                                                                                                                                                                                                             |
| <b>Investment Manager</b>            | <b>New City Investment Managers</b><br><b>CQS Cayman Limited Partnership</b><br>Fifth Floor<br>33 Grosvenor Place<br>London SW1X 7HY                                                                                                                                                                                                                                             |
| <b>Secretary</b>                     | <b>F&amp;C Asset Management plc</b><br>80 George Street<br>Edinburgh EH2 3BU<br>Tel: 0207 628 8000<br><br>The Company has served notice on F&C terminating its appointment as the Company's administrator and secretary with effect from 21 November 2011. The Company intends to appoint R&H Fund Services (UK) Limited as its administrator with effect from 21 November 2011. |
| <b>Solicitors</b>                    | <b>Maclay Murray &amp; Spens LLP</b><br>One London Wall<br>London EC2Y 5AB                                                                                                                                                                                                                                                                                                       |
| <b>Financial Adviser and Sponsor</b> | <b>Canaccord Genuity Limited</b><br>7th Floor, Cardinal Place<br>80 Victoria Street<br>London SW1E 5JL                                                                                                                                                                                                                                                                           |
| <b>Bankers and Custodian Bankers</b> | <b>HSBC Bank plc</b><br>8 Canada Square<br>London E14 5HQ                                                                                                                                                                                                                                                                                                                        |
| <b>Auditor</b>                       | <b>KPMG Audit Plc</b><br>20 Castle Terrace<br>Edinburgh EH1 2EG                                                                                                                                                                                                                                                                                                                  |
| <b>Registrars</b>                    | <b>Equiniti</b><br>Aspect House<br>Spencer Road, Lancing<br>West Sussex BN99 6DA<br>Shareholder helpline UK: 0871 384 2410**<br>Shareholder helpline overseas: +44 121 415 7047                                                                                                                                                                                                  |
| <b>Website</b>                       | <a href="http://www.ncim.co.uk">www.ncim.co.uk</a>                                                                                                                                                                                                                                                                                                                               |

\*Chairman of the Audit Committee

\*\*Calls to this number cost 8p per minute from a BT landline, other providers' costs may vary.

Lines open 8.30am to 5.30pm, Monday to Friday.

