

citynatural
resources
high yield trust plc



Annual Report
30 June 2012

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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.

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 full investment policy is detailed on page 14.

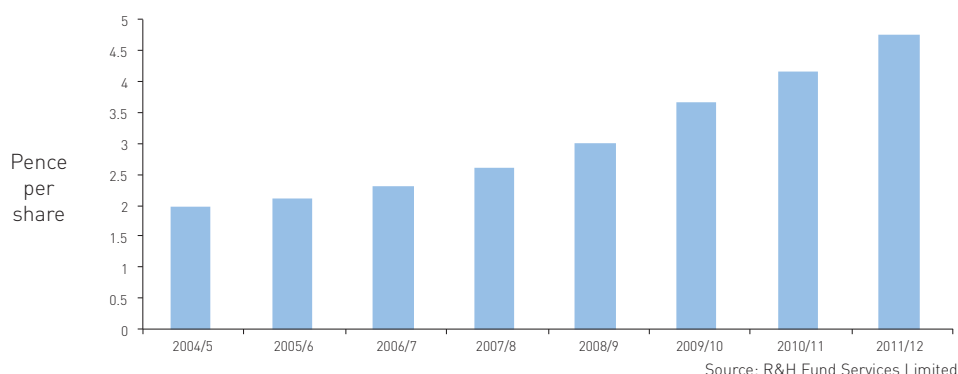
Benchmark Index

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 evaluates 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.

Dividends Declared in respect of Each Financial Year



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 2012 net assets were £163.9 million and the market capitalisation was £144.4 million.

The Company has 66,867,488 ordinary shares of 25 pence each all of which are issued and fully paid. On 26 September 2011 the Company issued £40,000,000 nominal of 3.5% Convertible Unsecured Loan Stock 2018 ('CULS') and as at 2 October 2012 £39,960,933 nominal of CULS remains 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.

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

At 2 October 2012, the last practicable date prior to signing the accounts, the Company's net asset value was 258.2 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.

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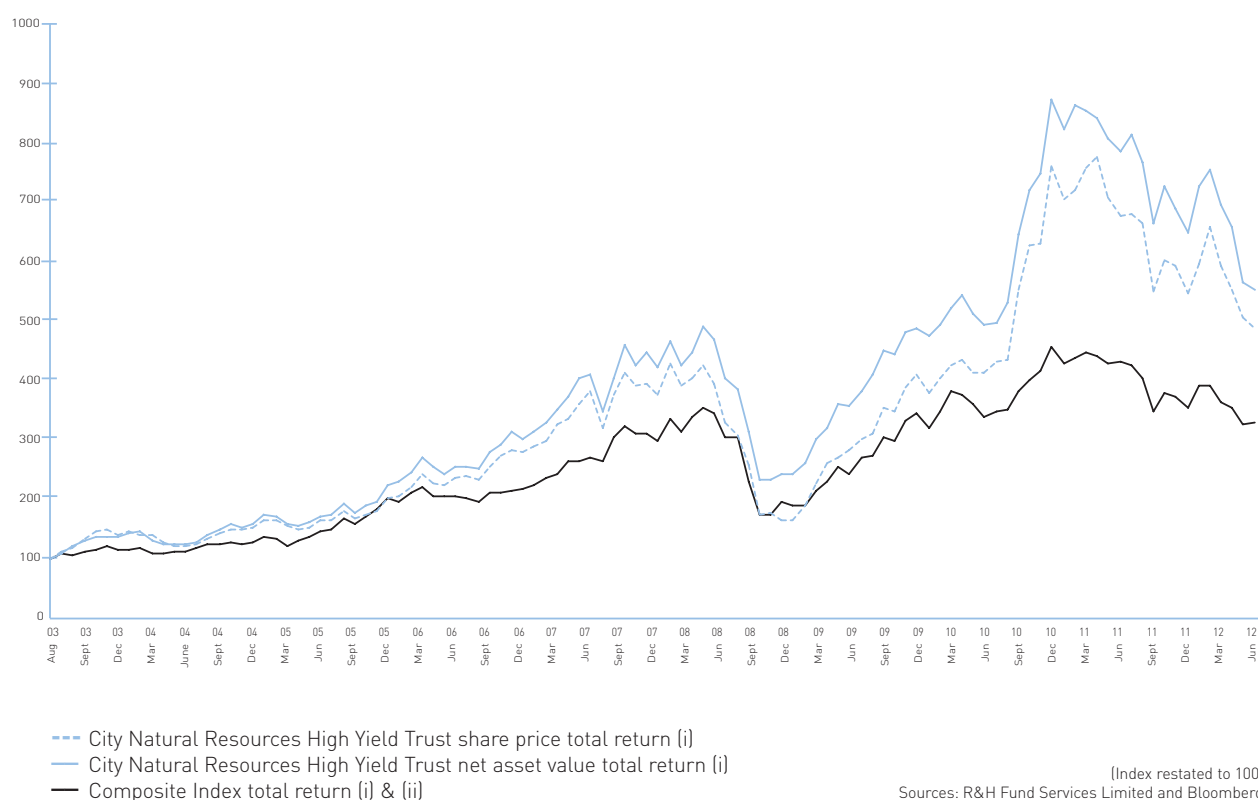
If you have sold or otherwise transferred all of your holdings in City Natural Resources High Yield Trust plc, please forward this document as soon as possible to the purchaser or transferee, or to the stockholder, bank or other agent through whom the sale or transfer was, or is being, effected, for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

Financial Highlights

For the year ended 30 June 2012

- Net asset value total return of -29.8 per cent since 1 July 2011 compared to a total return of -23.3 per cent from the benchmark index.
- Ordinary share price total return since 1 July 2011 of -28.0 per cent.
- Dividend of 4.8 pence per share for the year, an increase of 14.5 per cent.
- Seventh consecutive increase in the annual dividend, with an increase of 142 per cent since 1 August 2003.
- During the year the Company issued £40,000,000 nominal of 3.5% Convertible Unsecured Loan Stock 2018.
- Net asset value total return of 452.2 per cent since 1 August 2003 compared to a total return of 230.9 per cent from the benchmark index.
- Ordinary share price total return since 1 August 2003 of 388.0 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 30 June 2012	Year to 30 June 2011	Period from 1 August 2003 to 30 June 2012
Total Return			
Net asset value	-29.8%	+58.8%	+452.2%
Ordinary share price	-28.0%	+64.4%	+388.0%
Composite index	-23.3%	+27.1%	+230.9%
HSBC Global Mining Index (sterling adjusted)	-29.2%	+31.8%	+287.1%
Credit Suisse High Yield Index (sterling adjusted)	+9.7%	+6.3%	+118.4%
	30 June 2012	30 June 2011	% change period
Capital Values			
Net asset value per share	245.2p	354.2p	-30.8%
Ordinary share price (mid market)	216.0p	305.0p	-29.2%
3.5% Convertible Unsecured Loan Stock ("CULS") (mid market)	100.0p	n/a	n/a
	30 June 2012	30 June 2011	% change period
Revenue and Dividends			
Earnings per ordinary share	5.84p	5.09p	+14.7%
Dividends per ordinary share	4.83p	4.22p	+14.5%
Dividend Yield	2.2%	1.4%	
Discount (difference between share price and fully diluted net asset value)	-11.9%	-13.9%	
Gearing*			
Gearing provided by CULS	12.5%	–	
Gearing provided by bank debt	–	7.3%	
Ongoing charges (as a percentage of average shareholders' funds)	1.5%	1.5%	
	2011/12 High	2011/12 Low	
Period's Highs/Lows			
Net asset value	373.2p	235.9p	
Ordinary share price (mid market)	319.5p	208.9p	
Discount	-22.7%	-7.2%	

Dividend History

25 November 2011	First interim dividend of 0.77p per ordinary share paid
24 February 2012	Second interim dividend of 0.77p per ordinary share paid
25 May 2012	Third interim dividend of 0.77p per ordinary share paid
31 August 2012	Fourth interim dividend of 2.52p per ordinary share paid

*Gearing = Calculation and presentation is in accordance with the guidance published by the AIC on 1 October 2012.

Sources: R&H Fund Services Limited and Bloomberg.

Directors

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 the Asian Development Bank and several other development financial institutions.

Directors

Adrian Collins, was appointed to the Board on 14 December 1995 and was 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 Bahamas Petroleum Company PLC and is also on the boards of 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 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 to the Board on 30 November 2006 and was appointed as Audit Committee Chairman on 23 September 2011. He is a Chartered Accountant and has substantial corporate experience in the mineral sector, having been chairman of Brancote Holdings until its merger with Meridian Gold in 2002. He is currently a director of Landore Resources, an AIM traded mineral exploration company. He is also the non-executive chairman of Asian Growth Properties 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. Mr Collins is not a member of the Audit and Management Engagement Committees.

Investment Manager

New City Investment Managers ('NCIM') was established by Richard Lockwood. 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 2012, US\$11.2 billion assets under management (including mandates with discretionary management, sub-investment discretionary management, investment advice, collateral management and intermediation), becoming a group company. NCIM's rights and obligations under the investment management agreement between the Company and NCIM were then novated to CQS Cayman Limited Partnership ('CQS'). Consequently, CQS became the Company's Investment Manager but, with the agreement of the Board, has delegated that function to NCIM.

Will Smith has day-to-day responsibility for managing the Company's portfolio. He is supported by Ian Francis as co-manager as well as the rest of the NCIM team. 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 35 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.

Chairman's Statement

Introduction

A difficult year, as a market that seemed in January and February to have shrugged off the despondency of the last quarter of 2011 concluded that, after all, the US economy was weak; that China was more likely than not to have a hard landing; and, above all, that the Eurozone crisis remained intractable. This was particularly the case in sectors perceived to be risky, including commodities.

Investment and Share Price Performance

This weakness was reflected in your Company's performance and in returns to shareholders. As at 30 June 2012 your Company's net asset value stood at 245.2 pence, giving a net asset value total return for the year of – 29.8 per cent. The benchmark index returned –23.3 per cent.

The Company's share price total return during the year of –28.0 per cent was broadly in line, the discount at which the Company's shares trade narrowing a little from 13.9 per cent to 11.9 per cent during the year.

Your Company has generated net asset value and share price total returns of 452.2 and 388.0 per cent respectively since 1 August 2003; the benchmark index has returned 230.9 per cent.

Income and Dividends

This is the one part of the Company's performance that it gives me pleasure to report, especially as it has been a constant focus since 2004. Your Company paid a fourth interim dividend of 2.52 pence per share. This took the dividend for the year to 4.83 pence, an increase of 14.5 per cent on last year and representing the seventh successive year of dividend increases, as illustrated below:

Financial Year	Total dividend	% increase
2004/05	2.00p	–
2005/06	2.15p	7.5%
2006/07	2.35p	9.3%
2007/08	2.65p	12.8%
2008/09	3.07p	15.8%
2009/10	3.71p	20.8%
2010/11	4.22p	13.7%
2011/12	4.83p	14.5%

The Company's dividends have grown by 142 per cent since 2004/05, and the Board intends to continue to implement a progressive dividend policy.

The yield on the Company's shares is 2.2 per cent as I write.

Gearing

The Company successfully issued £40 million nominal of 3.5% Cumulative Unsecured Loan Stock 2018 ('CULS') on 26 September 2011. The Board believes that the CULS was attractive in its own right, that it provided seven year financing for the Company at an attractive interest rate, and also extended the Company's capital base. The CULS price was 100.0 pence as at 30 June 2012.

£21 million of the proceeds of the issue was used to repay the Company's existing short term bank loan. Some £5 million of the balance was gradually deployed during the year, and £10 million has been invested since the year end as the Manager has found opportunities amidst market turmoil. £3 million of cash remains on the balance sheet as I write, leaving the Company 18.8 per cent geared.

Chairman's Statement (continued)

Annual General Meeting

The Company's Annual General Meeting returns to London for the first time in several years and will take place at The Cavalry and Guards Club in Piccadilly at 12.30pm on Thursday 6 December 2012. I do hope that as many shareholders as possible will join us and take the opportunity to meet the Directors and the Investment Managers over a buffet lunch after the meeting.

At the Annual General Meeting shareholders will be asked to approve a change to the Company's Articles of Association removing the provisions prohibiting the distribution of capital profits. This is in response to a modernisation of the investment trust regime and is explained at greater length in the Directors' report on page 20. The Board has no plans to implement a capital distribution policy.

Investment Strategy and Outlook

At the resource company level many stocks look oversold, with modest valuation levels that do not reflect balance sheets that are much stronger than in 2008, nor improvements in the stewardship of shareholders' capital (witness recent project cancellations and the departure of failing chief executives at companies such as Barrick and Kinross), while the divergence between the share prices of metal producers and those of the underlying metal prices is eye catching. It is in this context that the Investment Manager has been deploying a sizeable portion of the Company's unutilised gearing since the end of the year.

It is not this micro climate that sets the mood, however. Looking back at my Statements to you over the last couple of years, it is discouraging to see how little has changed around the macro and political factors that seem to be informing movements in the equity markets. A series of sticking-plasters have been applied to stop things getting worse in the short term, but the tough decisions needed to resolve long term problems have been postponed, with the inevitable consequence that those problems have become worse. This applies in different ways to each of Europe, the United States and China (and the other BRIC economies).

This procrastination will almost certainly continue over the months ahead, but it is just possible that a pivotal moment is in the offing. The last quarter of this year will see both the US Presidential contest concluded and the 18th National Congress of the Communist Party of China confirm a new Chinese leadership in place. We will then discover how the next US administration sets about tackling the "fiscal cliff" represented by the long term overhang of government debt and get a better idea of how the Chinese economy is likely to land – and to evolve. In Europe Mario Draghi seems to have bought the Eurozone enough time to allow these events to play out, but perhaps not much more; it remains hard to see how Greece can remain a member indefinitely. Whatever the outcome, there will be a delay before any changes can feed into a true growth recovery.

Geoff Burns

Chairman

2 October 2012

Investment Manager's Review

The macro economic clouds that have gathered since the global financial crisis of 2008 showed no sign of dispersing during the last year and indeed, it appears that global policy makers have made little, if any, progress to finding credible solutions to the debt and deficit problems of the developed world. Faced with this uncertain backdrop investors adopted a "risk off" stance and the resources sector, always at the sharp end of the risk aversion trade, suffered accordingly. The HSBC Global Mining Index fell 29.2% over the year and the mid and smaller companies fared worse, with the Midcap 50 Resources Index falling 41%.

The first quarter of the year saw a surge in issuance from companies seeking to raise money for exploration and development of projects. That resource companies should issue equity is not, in itself, a surprise but the volume was such that the equities struggled to push ahead. The challenge for those companies is to put that cash to efficient use for shareholders and not to waste it on low return projects or to chase up the prices of labour or services to un-economic levels.

The summer months witnessed a sharp fall in the prices of many commodities, particularly the bulks such as coal and iron ore, as investors became concerned at the prospects for the Chinese economy. Those fears combined with rising costs led many companies to defer or cancel spending on new projects. BHP Billiton's Olympic Dam expansion and construction of the Outer Harbour at Port Hedland were just two such projects to be delayed, but these alone have major implications for the future supply of iron ore, copper and uranium.

The summer also saw the removal of the chief executives of both Barrick Gold Corp. and Kinross Gold after a period of poor share price performance, and while it may be too early to call this year a pivotal one in the behaviour of resource companies management teams, greater accountability, stronger corporate governance and improved capital discipline are all to be welcomed.

The gold price retreated from the all time high witnessed in September, but the Company remains overweight in gold and silver equities. We see further strength in the commodity price as loose monetary policies, over longer periods of time, are contemplated by policymakers both in Europe and the US. The support for gold from the Central Banks of the developing world has been most notable this year as they attempt to diversify their foreign exchange holdings away from the traditional reserve currencies of the developed world. Argentina, Kazakhstan, Mexico, the Philippines, Russia and Turkey are just some of the countries making additions to their holdings this year. The probability of gold equities ending the multi year derating process has increased. Firstly, because many companies have lost any premium relative to other mining companies, and secondly, many companies have returned to the dividend list or dramatically increased payments to shareholders albeit from low levels. This is an attempt to differentiate themselves from the ETFs whose rise has attracted so much of the money flows that would have traditionally been directed to the gold equities and is to be welcomed.

The fall in equity prices has inevitably led to an upsurge in M&A activity and the year saw Progress Energy, Neo Materials, Nautical Petroleum, Extonne Gold Mines and Adamus Resources all depart from the Company following takeover proposals. Nowhere was the disparity between the strategic players and the equity market's perceptions of value greater than the uranium sector. Since the earthquake in Japan last March and subsequent meltdown at Fukushima, uranium equities have been shunned but the major players; Cameco Corporation, Rio Tinto PLC and the China Guangdong Nuclear Power Corporation ('CGNPC') have all been on the offensive acquiring assets. The most notable for us was the takeover by CGNPC of Extract Resources and Kalahari Minerals which have both been good servants to the Company over many years.

We constantly search for quality bonds and convertibles to provide income and as the low interest rate era stretches on, the ability to increase the Company's dividend has been helped by the number of equities increasing returns to shareholders.

Despite the ongoing uncertainty over the prospects for the global economy, the combination of low valuations of resource equities and increased insecurity of future supply of many commodities make the long term prospects for investing in the sector very compelling.

Will Smith

Ian Francis

New City Investment Managers

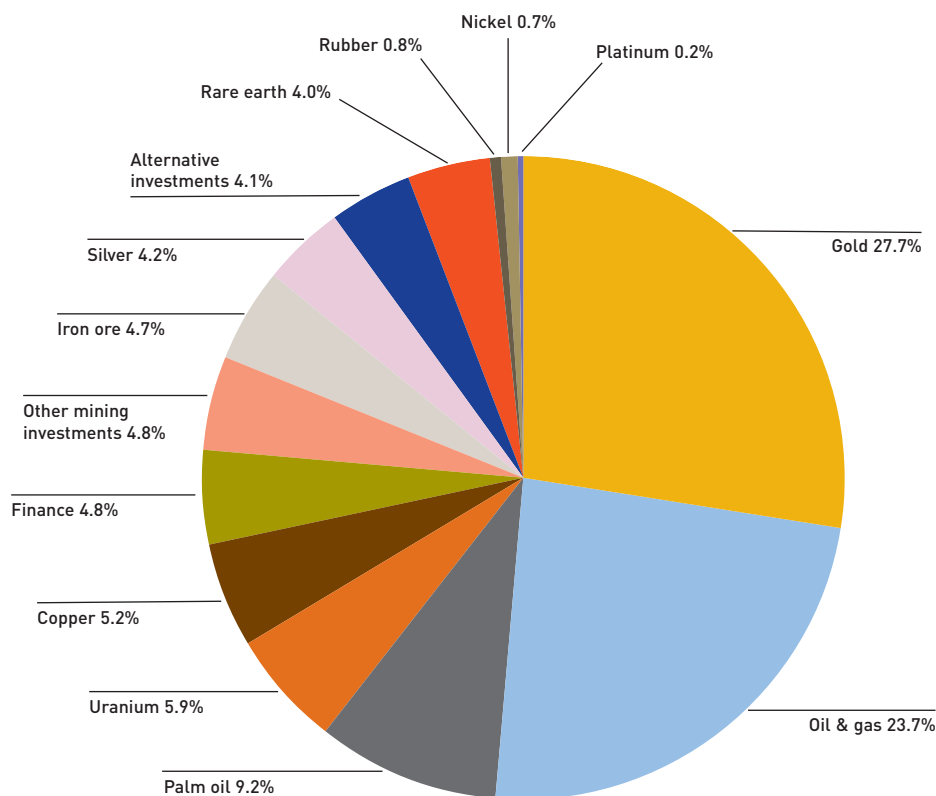
2 October 2012

Sector Split by Resources

As at 30 June 2012

	2012 % of total investments	2011 % of total investments
Gold	27.7	30.0
Oil & gas	23.7	14.2
Palm oil	9.2	7.1
Uranium	5.9	12.3
Copper	5.2	6.1
Finance	4.8	4.5
Other mining investments	4.8	6.2
Iron ore	4.7	3.4
Silver	4.2	4.5
Alternative investments	4.1	3.2
Rare earth	4.0	6.6
Rubber	0.8	0.7
Nickel	0.7	0.7
Platinum	0.2	0.5
Total investments	100.0	100.0

As at 30 June 2012

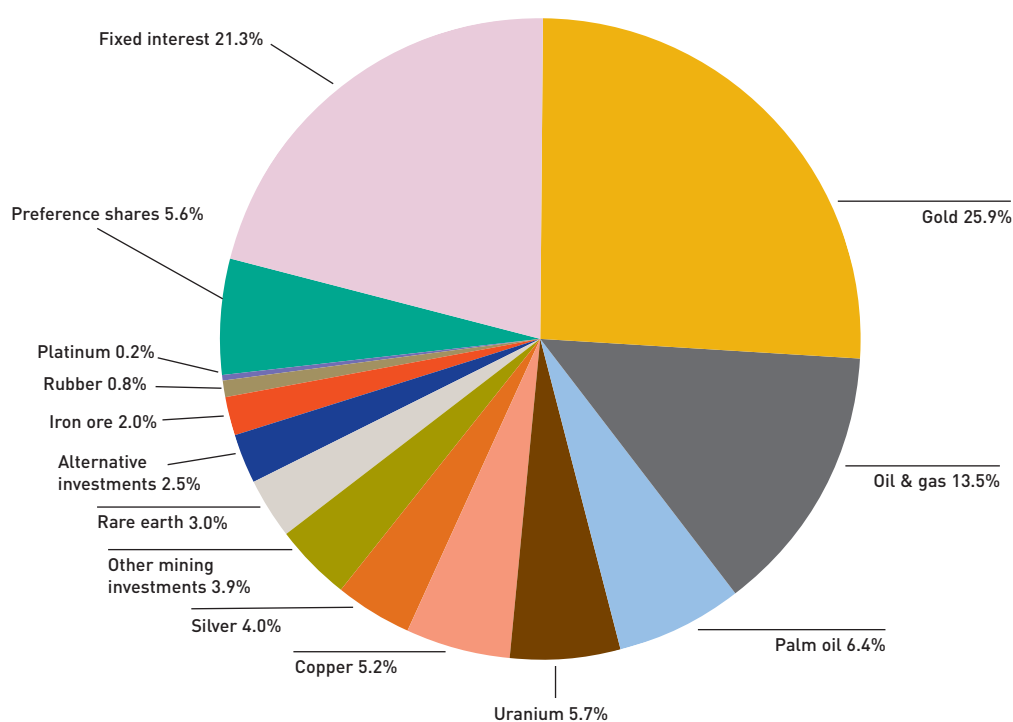


Sector Split by Resources including Fixed Interest Securities

As at 30 June 2012

	2012 % of total investments	2011 % of total investments
Gold	25.9	27.8
Oil & gas	13.5	8.7
Palm oil	6.4	5.1
Uranium	5.7	11.2
Copper	5.2	5.8
Silver	4.0	4.3
Other mining investments	3.9	4.4
Rare earth	3.0	6.1
Alternative investments	2.5	1.6
Iron ore	2.0	2.7
Rubber	0.8	0.7
Platinum	0.2	0.5
Nickel	–	0.4
Preference shares	5.6	4.1
Fixed interest	21.3	16.6
Total investments	100.0	100.0

As at 30 June 2012



Investment Portfolio

As at 30 June 2012

Company	Sector	Valuation £'000	% of Net assets
REA Holdings <i>(Note 1)</i>	Palm oil	7,584	4.6
New Britain Palm Oil	Palm oil	6,717	4.1
Great Western Minerals <i>(Note 2)</i>	Rare earth	3,515	2.1
Perseus Mining	Gold	3,386	2.1
First Quantum Minerals	Copper	3,372	2.1
Sandfire Resources	Copper	3,262	2.0
Iluka Resources	Titanium	2,946	1.8
Kingsrose Mining	Gold	2,762	1.7
Eldorado Gold	Gold	2,738	1.7
Paladin Energy <i>(Note 3)</i>	Paladium	2,700	1.6
Top 10 investments		38,982	23.8
Horizon Oil <i>(Note 4)</i>	Oil & gas	2,684	1.6
Silver Wheaton	Silver	2,565	1.6
Detour Gold <i>(Note 5)</i>	Gold	2,539	1.6
Wessex Exploration	Oil & gas	2,520	1.5
Northland Resources 13% 06/03/2017	Iron ore	2,508	1.5
Dannemora Mineral 11.75% 22/03/2016	Iron ore	2,476	1.5
Skipton Building Society <i>(Note 6)</i>	Finance	2,375	1.5
Antares Energy 10% 31/10/2013	Oil & gas	2,205	1.3
Western Areas 8% 02/07/2012	Oil & gas	1,955	1.2
Agnico-Eagle Mines	Gold	1,932	1.2
Top 20 investments		62,741	38.3
Ocean Rig 9.5% 27/04/2016	Oil & gas	1,904	1.2
Uranium Participation	Uranium	1,884	1.1
Newcrest Mining	Gold	1,842	1.1
Fortuna Silver Mines	Silver	1,842	1.1
Goldcorp	Gold	1,796	1.1
Osisko Mining	Gold	1,743	1.1
Norwegian Energy 12.9% 20/11/2014	Oil & gas	1,725	1.1
Integra Mining	Gold	1,706	1.0
Advance Energy <i>(Note 7)</i>	Oil & gas	1,677	1.0
Ausgold <i>(Note 8)</i>	Gold	1,669	1.0
Top 30 investments		80,529	49.1
APA Group	Oil & gas	1,626	1.0
Asian Plantations	Palm oil	1,617	1.0
TAG Oil	Oil & gas	1,616	1.0
Ferrous Resources *	Iron ore	1,585	1.0
Asian Citrus	Agriculture	1,583	1.0
Deep Drilling 12% 21/12/2015	Oil & gas	1,523	0.9
Raven Russia 12% preference shares	Property	1,522	0.9
Endeavour Mining	Gold	1,503	0.9
Molycorp	Rare earth	1,473	0.9
Resource & Investment <i>(Note 9)</i>	Gold	1,472	0.9
Top 40 investments		96,049	58.6
Semafo	Gold	1,459	0.9
Detnor 9.75% 28/01/2016	Oil & gas	1,416	0.9
Mineral Deposits	Gold	1,408	0.9
Societe Internationale de Plantations	Rubber	1,405	0.9
Tahoe Resources	Silver	1,366	0.8
Golden Prospect Precious Metals <i>(Note 10)</i> +	Gold	1,359	0.8
Golden Close Marit 11% 09/12/2015	Gold	1,356	0.8
Santander Finance <i>(Note 11)</i>	Finance	1,353	0.8
Rockgate Capital <i>(Note 12)</i>	Uranium	1,348	0.8
Coalspur Mines	Coal	1,344	0.8
Top 50 investments		109,863	67.0

Investment Portfolio (continued)

As at 30 June 2012

Company	Sector	Valuation £'000	% of Net assets
Newstrike Capital	Gold	1,334	0.8
Resolute Mining	Gold	1,315	0.8
Equatorial Resources	Iron ore	1,303	0.8
HBOS <i>(Note 13)</i>	Finance	1,235	0.8
Consolidated Minerals 8.875% 01/05/2016	Diversified Minerals	1,233	0.8
National Westminster 9.0% preference shares	Finance	1,192	0.7
Crescent Point Energy	Oil & gas	1,187	0.7
Mountain Province Diamonds	Diamonds	1,167	0.7
Polar Star Mining	Copper	1,159	0.7
New Gold <i>(Note 14)</i>	Gold	1,148	0.7
Top 60 investments		122,136	74.5
Uranium One	Uranium	1,127	0.7
Iamgold	Gold	1,126	0.7
Rubicon Offshore FRN 16/04/2014	Oil & gas	1,124	0.7
Ecclesiastical Insurance 8.625% preference shares	Finance	1,100	0.7
RL Finance 6.125% 29/12/2049	Finance	1,058	0.6
Balfour Beatty 10.75% preference shares	Industrial	1,054	0.6
Welltec 8% 01/02/2019	Oil & gas	1,002	0.6
Chloe Marine Demtro 12% 28/12/2016	Oil & gas	993	0.6
Great Panther Silver	Silver	975	0.6
Gryphon Minerals	Gold	968	0.6
Top 70 investments		132,663	80.9
Union Agriculture Group *	Agriculture	958	0.6
Union Minerals Group	Base metals	955	0.6
Cornstrom Well *	Oil & gas	954	0.6
M P Evans Group	Palm oil	950	0.6
Pancontinental Oil & Gas	Oil & gas	950	0.6
ZKB Gold	Gold	903	0.6
Golden Rim Resources	Gold	899	0.5
Saracen Mineral Holdings	Gold	896	0.5
Olympus Pacific Minerals	Gold	883	0.5
Skywest Airlines	Transport	855	0.5
Top 80 investments		141,866	86.5
Other investments		41,998	25.6
Total investments		183,864	112.1
Net current assets		14,918	9.1
3.5% Convertible Unsecured Loan Stock 2018		(34,836)	(21.2)
Net assets		163,946	100.0

Note 1 - Includes REA Holdings 9% preference shares valued at £4,544,994 and REA Finance 9.5% 31/12/2017 valued at £517,500

Note 2 - Includes Great Western Minerals Cv 8% 06/04/2017 valued at £1,856,877 and warrants valued at Nil *

Note 3 - Includes Paladin Energy 5% 11/03/2013 valued at £374,511

Note 4 - Includes Horizon Oil 5.5% 17/06/2016 valued at £494,000

Note 5 - Includes Detour Gold 5.5% 30/11/2017 valued at £613,521

Note 6 - Includes Skipton 10% 12/12/18 valued at £1,365,000 and Skipton 6.75% 30/05/2022 valued at £1,009,608

Note 7 - Includes Advance Energy 9.5% Cv 04/01/2015 valued at £1,613,103*

Note 8 - Includes warrants valued at £625,688

Note 9 - Includes warrants valued at £117,707

Note 10 - Includes subscription shares valued at £83,903

Note 11 - Includes Santander Finance 10.75% preference shares valued at £920,000 and Santander Finance 11.3% 27/07/2049 valued at £432,550

Note 12 - Includes warrants valued at Nil *

Note 13 - Includes HBOS 6.461% 29/11/2049 valued at £621,900 and HBOS Capital 6.85% valued at £613,521

Note 14 - Includes warrants valued at £236,225

* Denotes an unquoted security

+ Denotes a related party investment

FRN – floating rate note

Classification of Investments by Stockmarket Quotation

As at 30 June 2012

	2012 % of total investments	2011 % of total investments
Australia	32.2	39.1
Canada	29.0	27.1
United Kingdom	21.6	17.3
Europe	10.4	2.0
United States	2.1	6.2
Hong Kong	0.5	–
Papua New Guinea	0.1	3.0
Unquoted	4.1	5.3
Total investments	100.0	100.0

Directors' Report

The Directors present the Annual Report and Accounts of the Company for the year ended 30 June 2012.

Results and Dividends

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

	£'000
Current year net revenue available for dividends	3,907
Dividends on ordinary shares:	
First interim dividend of 0.77p per share paid on 25 November 2011	515
Second interim dividend of 0.77p per share paid on 24 February 2012	515
Third interim dividend of 0.77p per share paid on 25 May 2012	515
Fourth interim dividend of 2.52p per share paid on 31 August 2012	1,685

Note: The fourth interim dividend of 2.52p per share relates to the year ended 30 June 2012; however, under UK GAAP it will be accounted for in the year ended 30 June 2013.

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 the Corporation Tax Act 2010. It is the Company's intention to seek approval as an investment trust for the year ended 30 June 2012 and then to make an application under Regulation 5 of the Investment Trust (Approved Company) (Tax) Regulations 2011 for investment trust status to apply to all accounting periods starting on or after 1 January 2012.

The Company's shares are eligible for inclusion in the stocks and shares component of an Individual Savings Account.

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

Capital Structure

As at 30 June 2012 there were 66,867,488 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 2012 the Company had a bank facility of £30.0 million of which £Nil was drawn down at the year end. The bank facility ranks for repayment ahead of any capital return to shareholders.

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'). On 12 April 2012 the Company issued 10,345 ordinary shares of 25 pence each in connection with the exercise of conversion rights by holders of £39,067 nominal of the Company's CULS. Following this conversion and as at 2 October 2012 £39,960,933 nominal of CULS remains in issue. Holders of CULS are entitled to receive interest at a rate of 3.5% per annum payable semi-annually on 31 March and 30 September in each year. Upon redemption, CULS holders are entitled to repayment of the principal amount and any outstanding interest. CULS may be converted into ordinary shares on 31 March and 30 September in each year; the conversion price is 377.1848 pence nominal of CULS for one ordinary share (subject to adjustment on the occurrence of certain events).

Business Review

The Board of Directors is responsible for the overall stewardship of the Company, including investment and dividend policies, corporate strategy, gearing, corporate governance, and risk management. Biographical details of the Directors, all of whom are non-executive, can be found on page 4.

The following review provides information about the Company's business and results for the period to 30 June 2012.

The 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 expanded upon 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 the Company's portfolio is constructed without reference to the composition of any stockmarket index or benchmark. Exposure to higher yielding securities may also be obtained by investing in other sectors, including closed-end investment companies and open-ended collective investment schemes.

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

The Company may acquire securities that are unquoted at the time of investment but which are about to be, or are immediately convertible at the option of the Company into securities which are, listed or traded on a stock exchange, and may continue to hold securities that cease to be quoted or listed if the Investment Manager considers this appropriate. In addition, the Company may invest up to 10 per cent of its gross assets in other securities that are unlisted or unquoted at the time of investment.

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

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

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

The Company's performance in meeting its objectives is measured against key performance indicators ('KPIs') as set out on page 3. 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

In the year ended 30 June 2012, the Company paid dividends totalling 4.46p per share and declared a further dividend of 2.52p per share which was paid after the year end, on 31 August 2012. Based on an annualised rate of 4.83p and a share price of 222.0p at 2 October 2012, this represents a yield of 2.2 per cent.

Management and administration

The Board has delegated the management of the investment portfolio to CQS Cayman Limited Partnership, which in turn has delegated management to CQS Asset Management Limited which trades as New City Investment Managers 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.

On 21 November 2011 the Company Secretary and administration service of the Company changed to R&H Fund Services Limited from F&C Asset Management plc.

Custody 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 principal risks faced by the Company are set out below. The Board regularly reviews and agrees policies for managing each risk as summarised below.

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

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

The Board believes that, as at the date of this report, one particular uncertainty should be highlighted. It is unclear to what extent the economies and political structures of the member countries of the European Community may be affected by the financial crisis within the Eurozone, or whether the Euro as a currency will continue in its current form.

Sector Risk – The largest part of the Company's assets consist of equity-related investments in companies, usually mid-and small-cap companies, with a wide range of commodity exposures. The prices of the underlying commodities are often volatile and the companies can be located in countries at risk of political instability and vulnerable to natural disasters. The liquidity in the shares of the companies is often restricted, meaning that it can be difficult to buy or sell volumes of shares at the quoted price. The Board seeks to mitigate this risk through the processes described in the paragraph above on Investment and Strategy Risk. In addition, the closed-ended structure of the Company is an essential part of the Board's management of this risk, ensuring that parts of the portfolio do not have to be sold to raise liquidity to fund redemptions at short notice.

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

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

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

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

Directors' Report (continued)

Performance measurement and key performance indicators

The Board considers a number of performance measures to assess the Company's success in achieving 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
- Ongoing charges.

The relevant information is found on pages 2 and 3 under the Financial Highlights and Performance Summary sections.

A review of the Company's returns during the financial year, the position of the Company at the year end and the outlook for the coming year is contained within the Chairman's Statement on pages 5 and 6 and the Investment Manager's Review on page 7.

Net assets at 30 June 2012 amounted to £163.9 million with a net asset value per ordinary share of 245.18p.

The Investment Manager's Review on page 7 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 £Nil 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 4.

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 2012 were:

	Ordinary shares 2012	Ordinary shares 2011	CULS 2012	CULS 2011
G D C Burns	90,000	90,000	20,192	–
A J R Collins	50,000	50,000	22,434	–
A D Cooke	171,500	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 or CULS holdings of the Directors between 30 June 2012 and 2 October 2012.

On 26 September 2011, Mr Burns acquired £20,192 nominal of CULS, Mr Collins acquired £22,434 nominal of CULS and Mr Cooke acquired £10,000 nominal of CULS. On 4 May 2012, Mr Cooke sold his £10,000 nominal of CULS and purchased 6,000 ordinary shares.

Investment Manager's 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 2012 were:

	Ordinary shares 2012	Ordinary shares 2011	CULS 2012	CULS 2011
I Francis	–	–	–	–
W Smith	16,500	16,500	7,000	–

There has been no change in the ordinary share or CULS holdings of the key employees, directors or officers of the Investment Manager between 30 June 2012 and 2 October 2012.

On 26 September 2011, Mr Smith acquired £7,000 nominal of CULS.

Directors' Report (continued)

Substantial Interests in Share Capital

At 2 October 2012, the only persons known to the Company who, directly or indirectly, were interested in 3.0 per cent or more of the Company's issued share capital were as follows:

	Number of ordinary shares held	Percentage held
Henderson Global Investors	4,048,914	6.1%
Reliance Mutual	3,305,000	4.9%
Jupiter Asset Management	2,889,251	4.3%
Rathbones	2,739,110	4.1%
West Yorkshire Pension Fund	2,700,000	4.0%
South Yorkshire Pension Authority	2,655,000	4.0%
Brewin Dolphin	2,629,581	3.9%
SVM Asset Management	2,510,000	3.8%
Legal & General Investment Management	2,306,413	3.4%
Hargreaves Lansdown	2,164,861	3.2%
Investec Wealth & Investment	2,144,895	3.2%
Killik & Co	2,103,682	3.1%

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

Management and Management Fees

Investment management services to the Company have been delegated to CQS Cayman Limited Partnership, which in turn has delegated the management to CQS Asset Management Limited, trading as New City Investment Managers with Will Smith and Ian Francis as the fund managers.

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

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

The administration of the Company has been delegated to R&H Fund Services Limited ('R&H'). Summaries of the contracts between the Company and R&H are given in note 4 to the financial statements.

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 2013. Since all the Directors are non-executive, the Company is not required to comply with the provisions of the Code 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 4 all Directors

Directors' Report (continued)

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 Collins and Mr 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.

The Company's Articles of Association require that all Directors retire by rotation at least every three years. The Listing Rules require that a Director who is also a Director of other investment companies managed by the same investment manager or who is an employee of the investment manager be subject to annual re-election. In 2011 the Board decided that all Directors would 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; indeed, the Board's policy on tenure is that continuity and experience add significantly to the strength of the Board and no limit on the length of service of any of the Company's Directors, including the Chairman, has been imposed.

Mr Burns, Mr Collins, Mr Cooke, Mr Coulson and Mr Prickett, being eligible, are offering themselves for re-election at the forthcoming Annual General Meeting. 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 rôle and the Board believes that it is in the best interests of shareholders that these Directors are re-elected.

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 meets at least 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 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 and Mr A Collins. 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 £39,000 for the year ended 30 June 2012 (2011: £33,000) 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 Committee

The Management Engagement 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.

Directors' Report *(continued)*

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 shareholders the approval of Resolutions 2 to 6 contained in the Notice of the Annual General Meeting on page 45 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 2012 and the number of meetings attended by each Director.

	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	4	2	n/a	1	n/a	1	1
A D Cooke	4	4	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	4	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 45 and 46. If the resolution is not passed, the Board will put forward proposals to liquidate, open-end or otherwise reconstruct the Company. After making enquiries, and having considered the Company's investment objective, nature of the investment portfolio, bank facility and expenditure projections, the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, and in light of the Company's strong investment record, the Directors are satisfied that it is appropriate to adopt the going concern basis in preparing the accounts, notwithstanding that the Company is subject to an annual continuation vote as described above.

Internal Controls

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. As described in the section on Principal Risks and Risk Mitigation above, with particular reference to the paragraph concerning Operational Risk, the Board has established a process designed to meet the particular needs of the Company in managing the risks to which it is exposed. 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 has reviewed the need for an internal audit function. The Board has decided that the systems and procedures employed by the Investment Manager and Company's Secretary provide sufficient assurance that a sound system of internal control is maintained. In addition, the Company's financial statements are audited by an external auditor. An internal audit function, specific to the Company, is therefore considered unnecessary.

Financial Statements

The Directors' responsibilities regarding the financial statements and safeguarding of assets are set out on page 24.

Directors' Report (continued)

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 £1,670,016, being 9.99 per cent of the total issued shares as at 2 October 2012 (excluding any treasury shares). [The Company does not currently hold any shares in treasury].

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 up to a maximum nominal amount of £834,171 (being 4.99 per cent of the total of issued shares as at 2 October 2012).

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 2013, 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 2013.

Articles of Association

The law relating to investment trusts has recently been amended to modernise the investment trust regime. In particular, new conditions for a company being approved as an investment trust came in to effect for accounting periods beginning on or after 1 January 2012. As a result of the change in legislation there is no longer a requirement for there to be a prohibition in the Company's Articles of Association on the distribution as a dividend of surpluses arising from the realisation of investments. The definition of "investment company" under the Companies Act 2006 has also been amended with effect from 6 April 2012 to remove the requirement that the distribution of the Company's capital profits be prohibited by its Articles of Association.

The Board is seeking shareholder approval at the Annual General Meeting to amend the Articles of Association by removing the relevant provisions prohibiting the distribution of capital profits by the Company and clarifying that such distributions may be made, thereby permitting the distribution of capital profits by way of a dividend. This will provide the Company with increased flexibility to at least maintain dividends, although it is the Directors' intention that dividends should generally be paid from revenue.

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 2012 is set out on pages 45 and 46.

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 auditors are unaware and the Directors have taken all the steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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 18 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 likely to promote the success of the Company for the benefit of its shareholders as a whole. Accordingly, the Directors unanimously recommend that shareholders should vote in favour of the resolutions, as they intend to do in respect of their own beneficial shareholdings amounting to 351,143 ordinary shares.

By Order of the Board

R&H Fund Services Limited

Secretary

7 Lochside Avenue
Edinburgh Park
Edinburgh EH12 9DJ

2 October 2012

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 UK Corporate Governance Code. 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 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 2013 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 2012 was £99,000. 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 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.

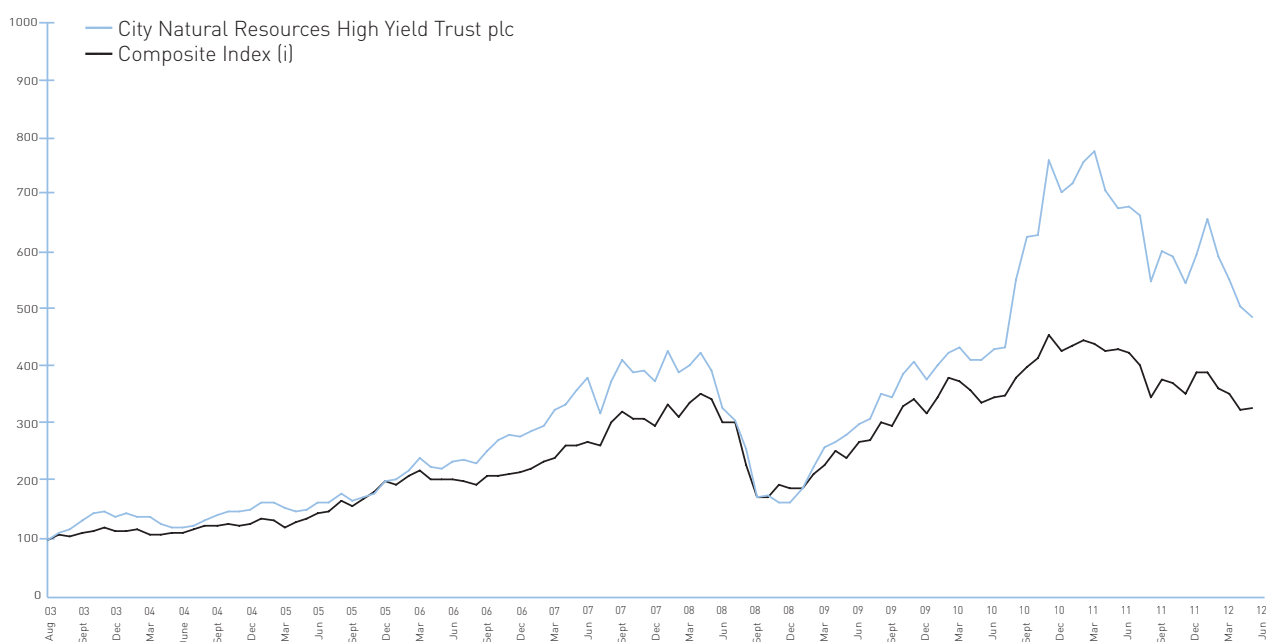
Director	Date of Appointment	Due date for re-election
G D C Burns	29 June 2005	AGM 2012
A J R Collins	14 December 1995	AGM 2012
A D Cooke	26 June 2003	AGM 2012
B M L Coulson	26 June 2003	AGM 2012
R Ö Prickett	30 November 2006	AGM 2012

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 17. The graph on page 23 compares, for the financial year ended 30 June 2012, 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 2012 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: R&H Fund Services Limited/Bloomberg

(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 2012 £'000	Fees 2011 £'000
G D C Burns*	25	22
A J R Collins**†	19	17
A D Cooke	18	16
B M L Coulson	18	16
R Ö Prickett***††	19	16
	99	87

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' fees that they should remain unchanged for the 2012/2013 year.

* Chairman

** Chairman of Audit Committee until 25 September 2011

***Chairman of the Audit Committee from 25 September 2011

† Fees paid to Fincorp International Ltd

†† Fees paid to European Sales Company Ltd

On behalf of the Board

Geoff Burns

Chairman

2 October 2012

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

2 October 2012

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 2012 set out on pages 26 to 43. 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 24, 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.

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 2012 and of its loss 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 19, in relation to going concern;
- the part of the Corporate Governance Statement on pages 17 and 18 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.

Catherine Burnet (Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants

Edinburgh

2 October 2012

Income Statement

for the year ended 30 June 2012

	Notes	Year ended 30 June 2012			Year ended 30 June 2011		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
(Losses)/gains on investments	9	–	(75,959)	(75,959)	–	86,661	86,661
Exchange losses		–	(154)	(154)	–	(122)	(122)
Income	2	6,314	–	6,314	5,447	–	5,447
Investment management fee	3	(616)	(1,850)	(2,466)	(676)	(2,028)	(2,704)
Other expenses	4	(609)	–	(609)	(534)	11	(523)
Net return before finance costs and taxation		5,089	(77,963)	(72,874)	4,237	84,522	88,759
Interest payable and similar charges	5	(296)	(1,502)	(1,798)	(88)	(264)	(352)
Net return on ordinary activities before taxation		4,793	(79,465)	(74,672)	4,149	84,258	88,407
Tax on ordinary activities	6	(886)	698	(188)	(745)	638	(107)
Net return attributable to equity shareholders		3,907	(78,767)	(74,860)	3,404	84,896	88,300
Return per ordinary share	8	5.84p	(117.81)p	(111.97)p	5.09p	126.98p	132.07p

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 30 June 2012 £'000	Year ended 30 June 2011 £'000
Opening equity shareholders' funds	236,788	151,109
(Losses)/gains on investments	(75,959)	86,661
Net return attributable to ordinary shareholders	3,907	3,404
Costs charged to capital	(2,654)	(1,643)
Exchange losses	(154)	(122)
Dividends paid	(2,982)	(2,621)
Issue of 3.5% Convertible Unsecured Loan Stock 2018	4,971	–
Issue of ordinary shares	29	–
Closing equity shareholders' funds	163,946	236,788

Balance Sheet

as at 30 June 2012

	Notes	As at 30 June 2012 £'000	As at 30 June 2011 £'000
Fixed assets			
Investments	9	183,864	253,745
Current assets			
Debtors	10	4,062	1,636
Cash at bank and on deposit		14,277	57
		18,339	1,693
Creditors: amounts falling due within one year	11	(3,421)	(18,650)
Net current assets/(liabilities)		14,918	(16,957)
3.5% Convertible Unsecured Loan Stock 2018	12	(34,836)	–
Net assets		163,946	236,788
Capital and reserves			
Called-up share capital	13	16,717	16,714
Special distributable reserve	14	30,386	30,386
Share premium	14	4,783	4,753
Equity component of 3.5% Convertible Unsecured Loan Stock 2018	12	4,424	–
Capital reserve	14	102,132	180,356
Revenue reserve	14	5,504	4,579
Equity shareholders' funds		163,946	236,788
Net asset value per share	15	245.18p	354.17p

The financial statements on pages 26 to 43 were approved by the Board of Directors on 2 October 2012 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 2012

	Notes	Year ended 30 June 2012 £'000	Year ended 30 June 2011 £'000
Operating activities			
Investment income received		5,719	5,103
Deposit interest received		4	7
Other income received		47	35
VAT on management fees received		–	180
Investment management fees paid		(2,533)	(2,626)
Other cash payments		(593)	(593)
Net cash inflow from operating activities	16	2,644	2,106
Servicing of finance			
Interest on bank facility		(147)	(343)
Interest on 3.5% Convertible Unsecured Loan Stock 2018		(715)	–
Net cash outflow from servicing of finance		(862)	(343)
Taxation			
Tax paid		(89)	(461)
Capital expenditure and financial investment			
Purchases of investments		(92,107)	(127,226)
Disposals of investments		85,950	120,103
Net cash outflow from capital expenditure and financial investment		(6,157)	(7,123)
Dividends			
Equity dividends paid		(2,982)	(2,621)
Net cash outflow before financing		(7,446)	(8,442)
Financing			
Bank facility (repaid)/drawn down		(17,400)	4,239
Issue of 3.5% Convertible Unsecured Loan Stock 2018		39,226	–
Issue expenses on ordinary shares		(6)	–
Net cash inflow from financing		21,820	4,239
Increase/(decrease) in net cash/(debt)	17	14,374	(4,203)
Reconciliation of net cash flow to movement in net cash/(debt)			
Increase/(decrease) in cash in the year	17	14,374	(4,203)
Repayment/(draw down) of bank facility		17,400	(4,239)
Exchange losses	17	(154)	(122)
Movement in net cash/(debt) in the year		31,620	(8,564)
Opening net (debt) at 1 July		(17,343)	(8,779)
Closing net cash/(debt) at 30 June	17	14,277	(17,343)

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) 3.5% Convertible Unsecured Loan Stock 2018

3.5% Convertible Unsecured Loan Stock 2018 issued by the Company is regarded as a compound instrument, comprising of a liability component and an equity component. At the date of issue, the fair value of the liability component was estimated by assuming that an equivalent non-convertible obligation of the Company would have a coupon rate of 5.75%. The fair value of the equity component, representing the option to convert liability into equity, is derived from the difference between the issue proceeds of the CULS and the fair value assigned to the liability. The accounting treatment of the CULS resulted in an uplift in the NAV of 2.5%. The liability component is subsequently measured at amortised cost using the effective cost interest rate.

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

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

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

Notes to the Financial Statements (continued)

(i) Reserves

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

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

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

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

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

(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.

2. Income

	2012 £'000	2011 £'000
Income from investments*		
UK dividend income	1,007	865
UK unfranked investment income	892	1,179
Overseas dividends	1,165	846
Overseas interest	3,199	2,515
	6,263	5,405
Other income†		
Deposit interest	4	7
Other income	47	35
	51	42
Total income	6,314	5,447
Total income comprises:		
Dividends	2,172	1,711
Fixed interest securities	4,091	3,694
Deposit interest	4	7
Other income	47	35
	6,314	5,447

*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

	2012 Revenue £'000	2012 Capital £'000	2012 Total £'000	2011 Revenue £'000	2011 Capital £'000	2011 Total £'000
Investment management fee	616	1,850	2,466	676	2,028	2,704

The Company's Investment Manager is CQS which in turn has delegated this function to NCIM. The contract between the Company and CQS may be terminated by either party giving not less than 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 £161,000 (2011 – £228,000).

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)

	2012 Revenue £'000	2012 Capital £'000	2012 Total £'000	2011 Revenue £'000	2011 Capital £'000	2011 Total £'000
Secretarial and administration fees	143	–	143	141	–	141
Directors' fees	99	–	99	87	–	87
Auditor remuneration for:						
– statutory audit	29	–	29	23	–	23
– other services relating to taxation	19	–	19	8	–	8
– other services	20	–	20	25	–	25
Other	299	–	299	250	(11)	239
	609	–	609	534	(11)	523

The Company has an agreement with R&H Fund Services Limited for the provision of secretarial and administration services. On 21 November 2011, the Company secretary and administration service of the Company changed to R&H Fund Services Limited from F&C Asset Management plc. During the year the total fees paid and payable were £143,000 (2011: £141,000). The balance due to R&H for secretarial services at the year end was £Nil (2011: £Nil).

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

The Company does not have any employees.

Included within other expenses in the year ended 30 June 2011 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

	2012 Revenue £'000	2012 Capital £'000	2012 Total £'000	2011 Revenue £'000	2011 Capital £'000	2011 Total £'000
Bank facility	29	86	115	88	264	352
Interest on 3.5% Convertible Unsecured Loan Stock 2018	267	800	1,067	–	–	–
Notional interest on 3.5% Convertible Unsecured Loan Stock 2018	–	543	543	–	–	–
Amortisation of issue expenses	–	73	73	–	–	–
	296	1,502	1,798	88	264	352

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

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.

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

Notes to the Financial Statements (continued)

6a. Tax on ordinary activities

	2012 Revenue £'000	2012 Capital £'000	2012 Total £'000	2011 Revenue £'000	2011 Capital £'000	2011 Total £'000
Corporation tax	698	(698)	–	682	(638)	44
Prior year adjustment	59	–	59	(43)	–	(43)
Relief for overseas taxation	–	–	–	(29)	–	(29)
Overseas taxation	129	–	129	135	–	135
Total tax charge/(credit)	886	(698)	188	745	(638)	107

6b. Reconciliation of tax charge

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

	2012 Total £'000	2011 Total £'000
Return on ordinary activities before taxation	(74,672)	88,407
Corporation tax at standard rate	(19,041)	24,754
Effects of:		
Non taxable income	(524)	(479)
Non taxable losses/(gains)	19,370	(24,265)
Overseas withholding tax	129	135
Double taxation relief	–	(29)
Excess management expenses	156	–
Non deductible exchange losses	39	34
Adjustment from previous years	59	(43)
Current year tax charge	188	107

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

At 30 June 2012 the Company had surplus management expenses of £614,432 (2011: £nil) which have not been recognised as a deferred tax asset.

Notes to the Financial Statements (continued)

7. Dividends

	2012 Revenue £'000	2011 Revenue £'000
Amounts recognised as distributions to equity holders in the year:		
– Fourth interim dividend for the year ended 30 June 2011 of 2.15p (2010 – 1.85p) per ordinary share	1,437	1,238
– First interim dividend for the year ended 30 June 2012 of 0.77p (2011 – 0.69p) per ordinary share	515	461
– Second interim dividend for the year ended 30 June 2012 of 0.77p (2011 – 0.69p) per ordinary share	515	461
– Third interim dividend for the year ended 30 June 2012 of 0.77p (2011 – 0.69p) per ordinary share	515	461
	2,982	2,621
Amounts relating to the year but not paid at the year end:		
– Fourth interim dividend for the year ended 30 June 2012 of 2.52p (2011 – 2.15p) per ordinary share	1,685	1,437

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

8. Return per ordinary share

	2012 Revenue pence	2012 Capital pence	2012 Total pence	2011 Revenue pence	2011 Capital pence	2011 Total pence
Ordinary share	5.84p	(117.81)p	(111.97)p	5.09p	126.98p	132.07p

The revenue return per ordinary share is based on a net profit after taxation of £3,907,000 (2011: £3,404,000) and on a weighted average of 66,860,111 ordinary shares in issue during the year (2011: 66,857,143).

The capital return per ordinary share is based on a net capital loss of £78,767,000 (2011: a net capital gain of £84,896,000) and on a weighted average of 66,860,111 ordinary shares in issue during the year (2011: 66,857,143).

Notes to the Financial Statements (continued)

9. Investments

	2012 £'000	2011 £'000
Investments listed/quoted on a recognised investment exchange	174,729	240,210
Unquoted investments	9,135	13,535
	183,864	253,745
Equity shares	131,325	195,996
Placings	3,004	5,312
Preference shares	10,333	10,307
Fixed income securities	33,752	24,301
Convertible securities	5,450	17,829
	183,864	253,745

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 Listed in UK £'000	Level 1 Listed overseas £'000	Level 3 £'000	2012 Total £'000	2011 Total £'000
Opening book cost	30,574	125,765	23,546	179,885	132,241
Opening fair value adjustment	22,988	60,883	(10,011)	73,860	28,052
Opening valuation	53,562	186,648	13,535	253,745	160,293
Purchases at cost	7,449	78,105	8,484	94,038	127,413
Conversions/transfers	4,674	4,427	(9,101)	–	–
Sales – proceeds	(16,242)	(67,931)	(3,787)	(87,960)	(120,622)
– realised gains/(losses) on sale	8,296	15,693	(437)	23,552	40,853
(Decrease)/increase in fair value adjustment	(16,578)	(83,374)	441	(99,511)	45,808
Closing valuation	41,161	133,568	9,135	183,864	253,745
Closing book cost	34,751	156,059	18,705	209,515	179,885
Closing fair value adjustment	6,410	(22,491)	(9,570)	(25,651)	73,860
Closing valuation	41,161	133,568	9,135	183,864	253,745

The gains and losses included in the above table have all been recognised within (losses)/gains on investments in the Income Statement on page 26. 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 2012 sales of Level 3 securities included the following:

	Opening valuation £'000	Sales proceeds £'000	Conversion £'000	Cost £'000	Closing valuation £'000
Electrum Resources Minerals 9% Cv 21/07/2011	–	200	–	200	–
MagIndustries 11% 20/12/2012	934	1,292	–	977	–
Metals Exploration 9% Cv 01/08/2011	1,000	1,000	–	1,000	–
Radicle Projects 8% 20/06/2012	–	15	–	385	–

	2012 £'000	2011 £'000
Realised gains on sale	23,552	40,853
Movement in fair value	(99,511)	45,808
(Losses)/gains on investments	(75,959)	86,661

During the year the Company incurred transaction costs on the purchases of £162,614 (2011: £139,135) and transaction costs on sales of £165,424 (2011: £320,058).

10. Debtors

	2012 £'000	2011 £'000
Amounts due from brokers	2,567	557
Prepayments and accrued income	1,478	1,059
VAT recoverable	17	20
	4,062	1,636

Notes to the Financial Statements (continued)

11. Creditors: amounts falling due within one year

	2012 £'000	2011 £'000
Bank facility	–	17,400
Amounts due to brokers	2,666	735
Interest on bank facility	–	32
Corporation tax	163	193
Other creditors	240	290
Interest on 3.5% Convertible Unsecured Loan Stock 2018	352	–
	3,421	18,650

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

Included within other creditors is £161,000 (2011: £228,000) due to CQS in respect of management fees.

12. 3.5% Convertible Unsecured Loan Stock 2018

	Number of units £'000	Liability component £'000	Equity component £'000
Balance at the beginning of the year	–	–	–
Issue of 3.5% Convertible Unsecured Loan Stock 2018	40,000	34,931	5,069
Expenses of issue	–	(676)	(98)
Amortisation of discount on issue and issue expenses	–	616	–
Transfer of CULS liability discount amortisation	–	–	(543)
Conversion during the year	(39)	(35)	(4)
Balance at the end of the year	39,961	34,836	4,424

On 26 September 2011, the Company issued a total of £40,000,000 nominal of 3.5% Convertible Unsecured Loan Stock 2018. The CULS can be converted at the election of holders into ordinary shares during the months of March and September in each year throughout their life, commencing March 2012 to September 2018 at a rate of 1 ordinary share for every 377.1848p nominal of CULS. On 12 April 2012, the Company issued 10,345 ordinary shares of 25 pence each in connection with the exercise of conversion rights by holders of £39,067 nominal of the Company's CULS. Once 80% of the nominal amount of the CULS issued have been converted, the Company is allowed to request that holders redeem or convert the remainder. Interest is paid on the CULS on 31 March and 30 September in each year, commencing 31 March 2012. 25% of the interest is charged to revenue in line with the Board's expected long-term split of returns from the investment portfolio of the Company.

As at 30 June 2012, there was £39,960,933 nominal of CULS in issue.

13. Share capital

	2012 Shares	2011 Shares	2012 £'000	2011 £'000
Authorised at 30 June				
Ordinary shares of 25p each	100,000,000	100,000,000	25,000	25,000
Allotted, called up and fully-paid at 30 June				
Total issued ordinary shares of 25p each as at 1 July	66,857,143	66,857,143	16,714	16,714
Issue of 10,345 shares on conversion of 3.5% Convertible Unsecured Loan Stock 2018 on 12 April 2012	10,345	–	3	–
Total issued ordinary shares of 25p each as at 30 June	66,867,488	66,857,143	16,717	16,714

Notes to the Financial Statements (continued)

On 12 April 2012, the Company issued 10,345 ordinary shares of 25 pence each in connection with the exercise of conversion rights by holders of £39,067 nominal of the Company's CULS.

Capital management policies and procedures

The Company's capital management objectives are:

- to ensure that the Company will be able to continue as a going concern; and
- to maximise the capital return to its equity shareholders through an appropriate balance of equity capital and debt. The Board normally seeks to limit gearing to 25% of net assets.

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

The capital of the Company is managed in accordance with its investment policy, in pursuit of its investment objective, both of which are detailed in the Directors' Report on page 14.

The Company does not have any externally imposed capital requirements.

14. Reserves

	Special reserve £'000	Share premium £'000	Equity element of CULS £'000	Capital reserve £'000	Revenue reserve £'000
At 30 June 2011	30,386	4,753	–	180,356	4,579
Exchange losses	–	–	–	(154)	–
Losses on investments	–	–	–	(75,959)	–
Management fees charged to capital	–	–	–	(1,850)	–
Finance costs charged to capital	–	–	–	(1,502)	–
Taxation credited to capital	–	–	–	698	–
Dividends paid	–	–	–	–	(2,982)
Retained net revenue for the year	–	–	–	–	3,907
Issue of 3.5% Convertible Unsecured Loan Stock 2018 ('CULS')	–	–	5,069	–	–
Expenses of CULS issue	–	–	(98)	–	–
Transfer of CULS liability discount amortisation	–	–	(543)	543	–
Issue of ordinary shares	–	30	(4)	–	–
At 30 June 2012	30,386	4,783	4,424	102,132	5,504

The special reserve is available for the buying back of shares. £5,504,000 is available for distribution as a dividend as represented in the revenue reserve.

15. Net asset value per ordinary share

The net asset value per ordinary share is based on net assets of £163.9 million (2011: £236.8 million) and on 66,867,488 (2011: 66,857,143) ordinary shares, being the number of ordinary shares in issue at the year end.

Notes to the Financial Statements (continued)

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

	2012 £'000	2011 £'000
Net return before finance costs and taxation	(72,874)	88,759
Losses/(gains) on investments	75,959	(86,661)
Withholding tax suffered	(129)	(133)
Increase in accrued income	(415)	(168)
(Increase)/decrease in other debtors	(1)	140
(Decrease)/increase in other creditors	(50)	47
Exchange losses	154	122
Net cash inflow from operating activities	2,644	2,106

17. Analysis of changes in net cash/(debt)

	At 30 June 2011 £'000	Cash flow £'000	Currency movements £'000	At 30 June 2012 £'000
Cash at bank and in hand	57	14,374	(154)	14,277
Bank facility	(17,400)	17,400	–	–
	(17,343)	31,774	(154)	14,277

18. Financial instruments

The Company's financial instruments comprise its investment portfolio, cash balances, bank facilities and debtors and creditors that arise directly from its operations. As an investment trust the Company holds a portfolio of financial assets in pursuit of its investment objective. The Company can make use of flexible borrowings for short term purposes, 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 27. The fair value of the bank facility and the fair value of the 3.5% Convertible Unsecured Loan Stock 2018 are not materially different from their 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.

Notes to the Financial Statements (continued)

The Company held the following categories of financial instruments as at 30 June 2012:

	2012 £'000	2011 £'000
Financial instruments		
Investment portfolio	183,864	253,745
Cash at bank and on deposit	14,277	57
Amounts due from brokers	2,567	557
Accrued income	1,449	1,034
Other debtors	46	45
Financial liabilities		
3.5% Convertible Unsecured Loan Stock 2018	34,836	–
Bank facility	–	17,400
Amounts due to brokers	2,666	735
Bank facility interest due	–	32
CULS interest due	352	–
Other creditors	403	483

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 2012, the impact on the profit or loss and the net asset value would have been negative £18.4 million (2011: negative £25.4 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.

Notes to the Financial Statements (continued)

Interest rate risk (continued)

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 £nil (2011: £87,000). If the bank base rate had decreased by 0.5 per cent, the impact on the profit or loss would have been equal and opposite. The calculations are based on borrowings as at the respective balance sheet dates and are not representative of the year as a whole.

At the year end, the Company had a bank facility of £30.0 million with HSBC, details of which are contained in note 11 on page 37.

Fixed rate

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

	2012 £'000	2012 Weighted average interest rate (%)*	2012 Weighted average period for which the rate is fixed (years)	2011 £'000	2011 Weighted average interest rate(%)*	2011 Weighted average period for which the rate is fixed (years)
Assets:						
Fixed income and convertible securities	39,202	9.5	3.9	42,130	9.1	8.5
Preference shares	10,333	9.7	n/a	10,307	9.7	n/a

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

Foreign currency risk

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

Foreign currency exposure at 30 June was as follows:

	2012 Investments £'000	2012 Cash £'000	2012 Net current assets/(liabilities) £'000	2012 Total £'000	2011 Investments £'000	2011 Cash £'000	2011 Net current assets £'000	2011 Total £'000
Australian Dollar	57,036	3	1,594	58,633	100,604	(401)	752	100,955
Canadian Dollar	51,798	(73)	(989)	50,736	72,685	–	44	72,729
US Dollar	27,069	(3)	436	27,502	20,033	–	270	20,303
Norwegian Krone	3,707	–	57	3,764	1,468	–	25	1,493
Euro	2,774	160	–	2,934	4,549	–	95	4,644
Hong Kong Dollar	888	17	66	971	–	–	–	–
Swedish Krone	593	–	–	593	–	–	–	–
Papua New Guinea Kina	257	–	–	257	7,555	–	–	7,555
	144,122	104	1,164	145,390	206,894	(401)	1,186	207,679

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 £7.3 million (2011: positive £10.4 million). If the value of sterling had strengthened by the same amount the effect would have been equal and

Notes to the Financial Statements (continued)

Foreign currency risk (continued)

opposite. The calculations are based on the portfolio valuation, cash balances and net current assets/(liabilities) as at the respective balance sheet dates and are not representative of the year as a whole, and may not be reflective of future market conditions.

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

Credit risk

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

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

	2012 £'000	2011 £'000
Cash and cash equivalents	14,277	57
Balances due from brokers	2,567	557
Interest, dividends and other receivables	1,495	1,079
	18,339	1,693

Credit risk on fixed interest investments is considered to be part of market price risk. As at 30 June 2012 and as at 2 October 2012 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 2012 and as at 30 June 2011. No individual investment exceeded 3.8 per cent of net assets as at 30 June 2012 (2011: 4.4 per cent).

As at 30 June 2012, the Company held 3 per cent or more of issued share capital of the following companies:

	Number of ordinary shares held	Percentage held
Polar Star Mining	10,280,500	10.71
Odyssey Energy	41,464,200	9.49
Rockridge Capital	6,500,000	9.35
Breaker Resources	5,000,000	9.07
Advance Energy	24,492,187	7.20
Brazilian Metals Group	8,800,000	6.03
Wessex Exploration	37,325,000	5.15
Renaissance Minerals	6,465,000	4.10
Forte Energy	32,304,000	4.07
European Gas	9,500,000	3.20
Ausgold	4,000,000	3.06
Fastnet Oil & Gas	5,000,000	3.03

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:

	2012 £'000	2011 £'000
Unquoted investments:		
Unquoted convertible securities that are convertible into listed securities	3,331	5,072
Unquoted equities (including placings)	5,290	7,529
Unquoted bonds	514	934
	9,135	13,535

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

The Company maintains sufficient cash, has a short term bank 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.

19. 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 2012, the Company held shares in New City Energy and Golden Prospect Precious Metals, these two investment companies are also managed by the Investment Manager.

Mr Collins is a non-executive chairman of Bahamas Petroleum. As at 30 June 2012 the Company held 1,150,000 shares in Bahamas Petroleum valued at £105,570. As at 2 October 2012 the Company held 2,150,000 shares in Bahamas Petroleum valued at £96,750.

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

There are no other transactions with the Board other than aggregated remuneration for services as Directors as disclosed in the Directors' Remuneration Report on pages 22 and 23, 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 16.

The balance due to Directors for fees at the year end was £Nil (2011: £Nil).

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 £11,280 may be invested in an ISA for the 2012/2013 tax year. You may invest either a lump sum or regular monthly savings, subject to the following amounts. The ISA will accept lump sum investments with a minimum of £1,000 or regular investments with a minimum of £100 a month. You can invest additional lump sums of £500 or more and can increase your monthly savings at any time. You can elect to have dividends reinvested into your ISA to buy further shares or paid into your nominated bank account.

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

Transfer of other ISAs into the New City Investment Managers ISA

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

Disposal of Shareholdings

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

Net Asset Value/Share Price

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

Notice of Annual General Meeting

Notice is hereby given that the seventeenth Annual General Meeting of City Natural Resources High Yield Trust plc will be held at The Cavalry and Guards Club, 127 Piccadilly, London, W1K 7PX on Thursday, 6 December 2012 at 12.30 pm 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 2012, together with the auditor's report thereon.
2. To re-elect Mr G D C Burns, who retires annually as a Director.
3. To re-elect Mr A J R Collins, who retires annually as a Director.
4. To re-elect Mr A D Cooke, who retires annually as a Director.
5. To re-elect Mr B M L Coulson, who retires annually as a Director.
6. To re-elect Mr R Ö Prickett, who retires annually 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 2012.

Special Business

As special business, to consider and if thought fit, pass 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 £1,670,016, such authorisation to expire at the conclusion of the next annual general meeting of the Company to be held in 2013, unless previously revoked, varied or renewed by the Company in general meeting, save that the Company may, at any time prior to the expiry of such authorisation, make an offer or enter into an agreement which would or might require relevant securities to be allotted or granted after the expiry of such authority and the Directors of the Company may allot or grant relevant securities in pursuance of such an offer or agreement as if such authorisation had not expired.

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

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 Companies Act 2006 (the 'Act'), to allot equity securities (as defined in Section 560 of the Act) either pursuant to the authorisation under section 551 of the Act conferred on the Directors of the Company by such resolution numbered 10, or by way of a sale of treasury shares, in each case for cash, as if section 561(1) of the Act did not apply to any such allotment:
 - (i) other than pursuant to sub-paragraph (ii) below, up to an aggregate nominal amount of £834,171 (representing approximately 4.99 per cent of the present issued share capital of the Company); or
 - (ii) in connection with an offer of equity securities open for acceptance for a period fixed by the Directors of the Company to the holders of ordinary shares in the share capital of the Company on a fixed record date in proportion (or as nearly as practicable) to their respective holdings of ordinary shares (but subject to such exclusions or other arrangements as the Directors of the Company may consider necessary or expedient to deal with any legal problems under or resulting from the application or apparent application of the laws of any territory or the requirements of any regulatory body or any stock exchange in any territory or in connection with fractional entitlements or otherwise howsoever);

such power to expire at the conclusion of the next annual general meeting of the Company to be held in 2013 unless previously revoked, varied or renewed by the Company in general meeting, save that the Company may, at any time prior to the expiry of such power, make an offer or enter into an agreement which would or might require equity securities to be allotted after the expiry of such power and the Directors of the Company may allot equity securities in pursuance of such an offer or agreement as if such power had not expired.

Notice of Annual General Meeting (continued)

12. That, in substitution for any existing authority but without prejudice to the exercise of any such authority prior to the date of this resolution, the Company be and is hereby authorised in accordance with Section 701 of the Companies Act 2006 (the "Act") to make market purchases (within the meaning of Section 693 of the Act) of ordinary shares of 25p each in the capital of the Company and to cancel or hold in treasury such shares provided that:
- (i) the maximum number of ordinary shares hereby authorised to be purchased shall be 14.99 per cent of the issued share capital of the Company as at the date of the passing of this resolution;
 - (ii) the minimum price which may be paid for an ordinary share is 25p;
 - (iii) the maximum price (exclusive of expenses) which may be paid for an ordinary share shall not be more than the higher of (i) 5 per cent above the average of the middle market quotations for an ordinary share on the London Stock Exchange Daily Official List for the five business days immediately preceding the date on which any such purchase is made and (ii) the higher of the last independent trade and the highest current bid on the London Stock Exchange;
 - (iv) the authority hereby conferred shall expire on 31 December 2013 or, if earlier, at the conclusion of the Annual General Meeting of the Company to be held in 2013 unless such authority is renewed, varied or revoked by the Company in general meeting 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, the Articles of Association of the Company be amended by:
- (i) the deletion of the following words from Article 112.1.1;
"but such monies, together with any other sums representing capital profits within the meaning of section 832 of the Act shall not in any event be available for distribution as dividend or any other distribution (within the meaning ascribed thereto by Section 829 (1) and (2) of the Act) otherwise than by way of a redemption or purchase by the Company of any of its own shares in accordance with sections 687 or 690 of the Act or on a reduction of capital pursuant to sections 641 to 647 of the Act"; and
 - (ii) the inclusion in their place of the following words:
"and may be applied for any of the purposes to which sums standing to the credit of any reserve under the provisions of Article 113 may be applied."

R&H Fund Services Limited

Secretary
Lochside House
7 Lochside Avenue
Edinburgh EH12 9DJ
2 October 2012

The Cavalry & Guards Club has asked the Company to bring to the attention of shareholders attending the Annual General Meeting that the use of mobile telephones is strictly forbidden in any part of the Club, and that gentlemen should wear a tailored jacket and tie at all times in the public areas of the Club (although jackets may be removed during meetings in function rooms).

Notice of Annual General Meeting (continued)

Notes

1. Information about this meeting is available from the Investment Manager's website; www.ncim.co.uk
2. A member entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to exercise all or any of their rights to attend, speak and vote at the meeting. A proxy need not be a member of the Company. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise the rights attached to any one share.
3. A form of proxy is enclosed for use at the above meeting. Completion and return of the form of proxy will not prevent a member from attending the meeting and voting in person. To be effective, the form of proxy, duly executed, must be lodged at the address shown on the form of proxy not later than 48 hours before the time of the meeting.
4. The right to vote at the meeting is determined by reference to the Company's register of Members as at 6.00 pm on 4 December 2012. Changes to entries on the register after that time should be disregarded in determining the rights of any member to attend and vote at the meeting.
5. As at 9.00 am on 2 October 2012, the Company's issued Share Capital comprised 66,867,488 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 2 October 2012 is 66,867,488.
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. 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.

Notice of Annual General Meeting (continued)

Notes (continued)

14. Under section 338 of the Companies Act 2006, members may require the Company to give, to members of the Company entitled to receive this notice of meeting, notice of a resolution which may properly be moved and is intended to be moved at the meeting. Under section 338A of that Act, members may request the Company to include in the business to be dealt with at the meeting any matter (other than a proposed resolution) which may properly be included in the business.
15. It is possible that, pursuant to requests made by members of the Company under section 527 of the Companies Act 2006, the Company may be required to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the meeting; or (ii) any circumstances connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Companies Act 2006. The Company may not require the members requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the meeting includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on a website.
16. In accordance with section 311A of the Companies Act 2006, the contents of this notice of meeting, details of the total number of shares in respect of which members are entitled to exercise voting rights at the AGM and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this notice will be available on the Company's website www.ncim.co.uk.
17. You may not use any electronic address provided either in this Notice of Meeting or any related documents (including the Form of Proxy) to communicate with the Company for any purposes other than those expressly stated.

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, or¹.

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 Cavalry and Guards Club, 127 Piccadilly, London, W1K 7PX on Thursday, 6 December 2012 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 (Note 7)
Ordinary Business			
1. To receive the Report and Accounts for the year ended 30 June 2012.			
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 2012.			
Special Business			
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 amend the Articles of Association.			

Signature _____

Dated _____ Day of _____ 2012

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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

Registered Number	02978531
Registered Office	R&H Fund Services Limited 6 New Street Square New Fetter Lane London EC4A 3AQ
Directors	Geoffrey D C Burns (Chairman) Adrian J R Collins Adam D Cooke B Michael L Coulson Richard Ö Prickett*
Investment Manager	New City Investment Managers CQS Cayman Limited Partnership Fifth Floor 33 Grosvenor Place London SW1X 7HY
Secretary	R&H Fund Services Limited Lochside House, 7 Lochside Avenue Edinburgh EH12 9DJ Tel: 0131 625 2951
Solicitors	Maclay Murray & Spens LLP One London Wall London EC2Y 5AB
Financial Adviser and Corporate Broker	Cantor Fitzgerald Europe 17 Crosswall London EC3N 2LB
Bankers and Custodian Bankers	HSBC Bank plc 8 Canada Square London E14 5HQ
Auditor	KPMG Audit Plc 20 Castle Terrace Edinburgh EH1 2EG
Registrars	Equiniti Aspect House Spencer Road, Lancing West Sussex BN99 6DA Shareholder helpline UK: 0871 384 2410** Shareholder helpline overseas: +44 121 415 7047
Website	www.ncim.co.uk

*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.

