city natural resources high yield trust plc

Interim Report
31 December 2011

Investment Objective

The investment objective of the Company is 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 World Mining Index (sterling adjusted) and one third to the Credit Suisse High Yield Index (sterling adjusted).

The Company may invest not more than 15% of its gross assets in other investment trusts and companies and may also invest a minority of the Company's gross assets in the convertible securities and bonds issued by commercial and investment companies.

Dividends

	Six months ended 31 December 2011		Six months ended 31 December 2010		Year ended 30 June 2011	
	£'000	Rate (pence)	£'000	Rate (pence)	£'000	Rate (pence)
Fourth interim dividend	**1,437**	**2.15**	1,237	1.85	1,238	1.85
First interim dividend	**515**	**0.77**	461	0.69	461	0.69
Second interim dividend	**–**	**–**	–	–	461	0.69
Third interim dividend	**–**	**–**	–	–	461	0.69
	1,952	**2.92**	1,698	2.54	2,621	3.92

A second interim dividend for the year to 30 June 2012, of 0.77 pence per share, was paid on 24 February 2012 to shareholders on the register on 27 January 2012.

Dividends are paid quarterly in February, May, August and November.

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 is not guaranteed. Changes in rates of exchange may cause the value of investments to fluctuate. Net Asset Value performance is not linked to share price performance, and shareholders may realise returns that are lower or higher in performance.

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

Fund Specific Warning

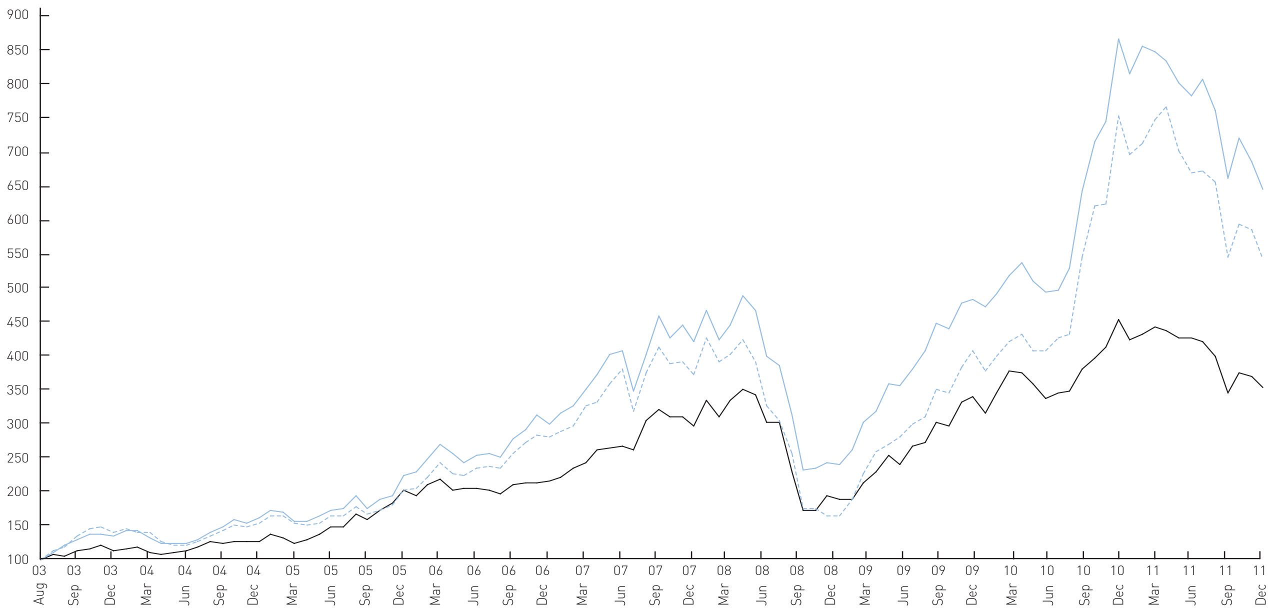
In some less developed stockmarkets there are risks from political, economic and regulatory instability. These risks include the possibility of various forms of punitive government intervention together with reduced levels of regulation, higher brokerage commissions, less reliable settlement and custody practices, higher market volatility and less reliable financial reporting. There is a lower level of correlation between mining to equity generally, and risks in gold, base metals and mining shares in general tend to be country specific in nature.

Financial Highlights

For the six months ended 31 December 2011

- Net asset value total return of -17.3 per cent since 1 July 2011 compared to a total return of -17.5 per cent from the benchmark index
- Share price total return of -19.2 per cent since 1 July 2011
- Dividend increase of 11.6 per cent for the half year
- Ordinary share price discount of 16.0 per cent to net asset value

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

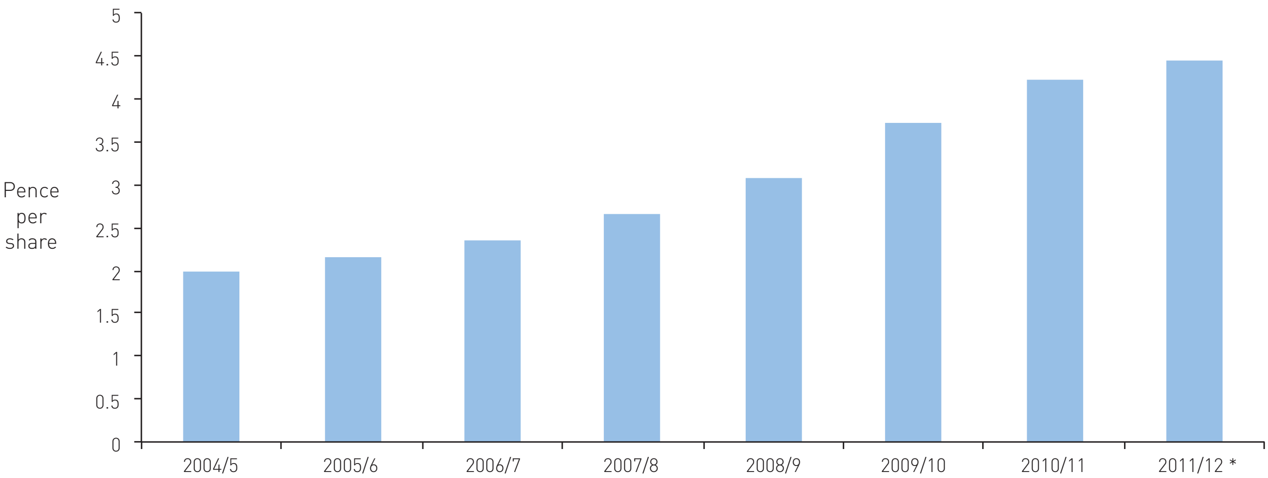


Sources: R&H Fund Services Limited and Datastream

(i) Net dividends reinvested.

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

Dividends declared in respect of each financial year



* 2011/12 assumes that the third interim dividend in respect of the financial year ended 30 June 2012 remains in line with the first and second interim payments paid for that year at 0.77 pence per share and that the fourth interim dividend is in line with the fourth interim dividend paid in respect of the financial year ended 30 June 2011 of 2.15 pence per share

Source: R&H Fund Services Limited and Datastream

Chairman's Statement

Investment and Share Price Performance

At 31 December 2011 your Company's net asset value stood at 290.3 pence, giving a net asset value total return for the six month period under review of -17.3 per cent, almost exactly in line with the benchmark index which fell by 17.5 per cent.

The Company's share price total return was -19.2 per cent, which reflected a widening of the discount at which the Company's shares trade from 13.9 per cent to 16.0 per cent during the six months. Market instability and high levels of volatility have been particularly pronounced amongst risk asset classes and until a measure of stability returns, the battle to reduce discount levels is likely to be fought with only limited success. The discount stands at 15.0 per cent as I write.

Your Company has generated net asset value and share price total returns of 553.8 and 447.5 per cent respectively since 1 August 2003; the benchmark index has returned 255.8 per cent.

Income and Dividends

The Company's income performance remains strong. Two interim dividends of 0.77 pence have been paid in respect of this year, representing an increase of 11.6 per cent on those paid last year. The total dividend of 4.22 pence for the 2010/2011 year was itself 13.7 per cent higher than that of the year before and represented the sixth successive year of dividend increases. The Board intends to continue to implement a progressive dividend policy.

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

Gearing

The Company successfully issued £40 million nominal of 3.5% Cumulative Unsecured Loan Stock 2018 ("CULS") on 26 September 2011. Your Board believes that the CULS is attractive in its own right – the issue is more than five times covered by the Company's assets and the yield of 3.5% is twice that of the ordinary shares – and provides seven year financing for the Company at an attractive interest rate and extends the Company's capital base.

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

At 31 December 2011 the Company had £15.9 million of cash on its balance sheet.

Investment Strategy and Outlook

The last quarter of 2011 saw a despondent market fearful of a double-dip recession in the United States, the Chinese economy landing hard and, in particular, the threat that the sovereign debt crisis in Europe might precipitate Lehman II.

In the event, leading indicators in the United States have pointed towards a pick up in the economy, with unemployment back to levels not seen since 2008, and 2012 growth estimates of between 2 and 3 per cent. China has seen inflation decline and belief grow that the property bubble can be contained; it is now anticipated that the authorities will continue to loosen monetary policy. In Europe the key event has been the move by the European Central Bank to introduce its Long Term Refinancing Operation ("LTRO") programme. This has boosted liquidity and dramatically reduced the chances of a systemic banking crisis in the region; at least for the time being.

This good news undid the conservatively positioned and the risk averse, and risk assets, including commodities, moved higher. A bright start to 2012 saw the Company's net asset value increase by 11.4 per cent in January.

So the worst has not come to pass, and there are grounds for optimism; monetary policy should remain loose across the globe as headline inflation rates fall, and there seems to be momentum in the global economic recovery. And yet … is the virtually free money being offered by central banks across the developed world really a sign of health? The prudent savers being robbed of their real returns on sovereign debt and bank deposits (outside of southern Europe) in order to pay for the past profligacy of others would not think so.

Whether QE or LTRO is your preferred poison, printing money suggests that asset bubbles and inflation are unlikely to be strangers. Nor has the curtain run down on a Greek tragedy where the suspicion remains that neither the author nor the players know how the plot concludes.

Your Company's positioning reflects this ambivalence. We are moderately geared, but maintain in excess of £11 million cash on the balance sheet; it feels like a good time to have secured seven year financing. We have a near 30% exposure to gold which reassures, while the wide diversity of our other interests is the source of both opportunity and insurance against the unexpected.

Above all, the medium and long term case for investing in commodities remains intact. The BRIC countries have no sovereign debt crisis, and across the new world consumption can only rise - a consumption that must be fuelled by the commodities that are your Company's raison d'être. Short term pressures on commodity demand and pricing are always possible, but the longer term trends are well established and your Company remains focussed on being positioned to benefit from these trends.

Geoff Burns
Chairman

28 February 2012

Manager's Review

We were glad to greet 2012 and hopefully leave behind the market's fixation on the inability of politicians to find a credible resolution to the Eurozone's debt problems. The last six months have seen resource equities come under severe pressure as investors fled the sector fearing economic contagion. There can be no doubt that the Government debt crisis of the developed world has a long way to run and politicians and electorates have not fully grasped the implications of the de-leveraging process, which will be grim. The remarkable expansion of the major central banks' balance sheets, whether by Operation Twist, LTRO or Quantitative Easing, are all terms to ease the stress on financial markets and, arguably, designed to keep policymakers in employment rather than provide a lasting solution to the debt crisis.

Market sentiment towards the resources sector altered dramatically over the period as investors worried about the risk that is inseparable from the commodities sector. Whether it is the unforeseeable (a tsunami striking the nuclear plant at Fukushima); the political (take your pick, but opportunistic and counterproductive mining taxes would be likely to make the short list), or "simple" market volatility (gold fell 10% in December, only to rise by 11% in January; this was not based on a shift in fundamentals), it is all too easy for nerves to get the better of even the stout hearted.

It is this that explains why many of the companies that we investment in ended the year in much better shape than they began , but, paradoxically, found their share prices were much lower.

So long as the case for a secular bull market in commodities persists, and it resoundingly does, this is in the last analysis mostly background noise, noise, moreover, which the Company's wide range of interests and tactical flexibility leave it well positioned to take advantage of. The changes in valuations to which I refer above offer always gives rise to opportunity, and most producers benefited from expanded margins, particularly the gold miners, and now have robust balance sheets. We believe that this will lead to a continuation of M&A across the sector, a trend which saw the likes of Petrohawk Energy, MacArthur Coal, Minara Resources, Grand Cache Coal and Hathor Exploration all succumb to takeovers in the second half of 2011. Strong cash generation has also led companies to increase returns to shareholders and this has enabled us to raise the interim dividend by 11.6% to 0.77 pence. In this era of low interest rates, those companies offering growth and meaningful dividends are in the spotlight and this has been shown by the performance of Iluka Resources and APA Group.

The takeover of Hathor Exploration by Rio and the proposed bid for Kalahari Minerals and Extract Resources by China Guandong Nuclear Power Corporation are of particular interest to the Trust, not least because Extract and Kalahari have been among the Trust's two largest holdings for a while, but importantly it shows that the strategic players, Rio, Cameco and CGNPC, have a very different view of the uranium market fundamentals than the equity market at present. We have long maintained that tier 1 deposits end up in the hands of the majors and these were cases in point.

Looking forward we would like to think that we will be writing less about politics and more about the exciting companies in the portfolio, such as Americas Petrogas, unlocking the potential of shale gas in Argentina's Neuquen Basin, and Newstrike Capital discovering a new gold belt in Mexico.

Will Smith
Ian Francis
New City Investment Managers

28 February 2012

Income Statement

For the six months ended 31 December 2011

	Note	Six months ended 31 December 2011 (unaudited) Revenue £'000	Capital £'000	Total £'000	Six months ended 31 December 2010 (unaudited) Revenue £'000	Capital £'000	Total £'000	Year ended 30 June 2011 (audited) Revenue £'000	Capital £'000	Total £'000
(Losses)/gains on investments	3	–	(46,263)	(46,263)	–	113,295	113,295	–	86,661	86,661
Exchange losses		–	(68)	(68)	–	(128)	(128)	–	(122)	(122)
Income	4	2,906	–	2,906	2,868	–	2,868	5,447	–	5,447
Investment management fee		(321)	(964)	(1,285)	(304)	(911)	(1,215)	(676)	(2,028)	(2,704)
Other expenses		(347)	–	(347)	(244)	–	(244)	(534)	11	(523)
Net return before finance costs and taxation		2,238	(47,295)	(45,057)	2,320	112,256	114,576	4,237	84,522	88,759
Interest payable and similar charges		(121)	(562)	(683)	(41)	(121)	(162)	(88)	(264)	(352)
Net return on ordinary activities before taxation		2,117	(47,857)	(45,740)	2,279	112,135	114,414	4,149	84,258	88,407
Tax on ordinary activities		(494)	521	27	(408)	289	(119)	(745)	638	(107)
Net return attributable to equity shareholders	5	1,623	(47,336)	(45,713)	1,871	112,424	114,295	3,404	84,896	88,300
Return per ordinary share	5	2.43p	(70.80p)	(68.37p)	2.80p	168.16p	170.96p	5.09p	126.98p	132.07p

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

The total column in the above statement is the profit and loss account of the Company.

All of the profit/(loss) for the period is attributable to the owners of the Company.

Amounts recognised as dividends in the period

	Six months ended 31 December 2011 (unaudited) £'000	Six months ended 31 December 2010 (unaudited) £'000
Fourth interim dividend for the year ended 30 June 2010 of 1.85p per share	–	1,237
First interim dividend for the year ended 30 June 2011 of 0.69p per share	–	461
Fourth interim dividend for the year ended 30 June 2011 of 2.15p per share	1,437	–
First interim dividend for the year ended 30 June 2012 of 0.77p per share	515	–
	1,952	1,698

Balance Sheet

As at 31 December 2011

	Notes	As at 31 December 2011 (unaudited) £'000	As at 31 December 2010 (unaudited) £'000	As at 30 June 2011 (audited) £'000
Fixed assets				
Investments		**211,948**	281,767	253,745
Current assets				
Debtors		**1,488**	1,579	1,636
Cash at bank and on deposit		**15,858**	438	57
		17,346	2,017	1,693
Creditors: amounts falling due within one year		**(722)**	(20,078)	(18,650)
Net current assets/(liabilities)		**16,624**	(18,061)	(16,957)
3.5% Convertible Unsecured Loan Stock 2018	7	**(34,476)**	–	–
Net assets		**194,096**	**263,706**	**236,788**
Capital and reserves				
Called-up share capital	8	**16,714**	16,714	16,714
Special distributable reserve	8	**30,386**	30,386	30,386
Share premium	8	**4,753**	4,753	4,753
Equity component of 3.5% Convertible Unsecured Loan Stock 2018	8	**4,795**	–	–
Capital reserve	8	**133,198**	207,884	180,356
Revenue reserve	8	**4,250**	3,969	4,579
Equity shareholders' funds	6	**194,096**	**263,706**	**236,788**
Net asset value per share		**290.31p**	**394.43p**	**354.17p**

Reconciliation of Movements in Shareholders' Funds

	Six months ended 31 December 2011 (unaudited) £'000	Six months ended 31 December 2010 (unaudited) £'000	Year ended 30 June 2011 (audited) £'000
Opening equity shareholders' funds	**236,788**	151,109	151,109
Return on ordinary activities after taxation	**(45,713)**	114,295	88,300
Issue of 3.5% Convertible Unsecured Loan Stock 2018	**4,973**	–	–
Dividends paid	**(1,952)**	(1,698)	(2,621)
Closing equity shareholders' funds	**194,096**	**263,706**	**236,788**

city natural resources

Condensed Cash Flow Statement

For the six months ended 31 December 2011

	Six months ended 31 December 2011 (unaudited) £'000	Six months ended 31 December 2010 (unaudited) £'000	Year ended 30 June 2011 (audited) £'000
Net cash inflow from operating activities	**775**	1,406	2,106
Net cash outflow from servicing of finance	**(143)**	(151)	(343)
Taxation paid	**(16)**	–	(461)
Net cash outflow from financial investment	**(4,643)**	(9,010)	(7,123)
Equity dividends paid	**(1,952)**	(1,698)	(2,621)
Net cash outflow before financing	**(5,979)**	(9,453)	(8,442)
Bank facility (repaid)/drawndown	**(20,569)**	5,637	4,239
Issue of 3.5% Convertible Unsecured Loan Stock 2018	**39,248**	–	–
Increase/(decrease) in cash	**12,700**	**(3,816)**	**(4,203)**
Reconciliation of net cash flow to movement in net debt			
Increase/(decrease) in cash	**12,700**	(3,816)	(4,203)
Repayment/(drawdown) of bank facility	**20,569**	(5,637)	(4,239)
Exchange losses	**(68)**	(128)	(122)
Movement in net cash/(debt) in the period	**33,201**	(9,581)	(8,564)
Opening net debt at 1 July	**(17,343)**	(8,779)	(8,779)
Closing net cash/(debt) at 31 December/30 June	**15,858**	**(18,360)**	**(17,343)**
Represented by:			
Cash at bank	**15,858**	438	57
Bank facility falling due within one year	**–**	(18,798)	(17,400)
	15,858	**(18,360)**	**(17,343)**
Reconciliation of operating revenue to net cash flow from operating activities			
Net return before finance costs and taxation	**(45,057)**	114,576	88,759
Losses/(gains) on investments	**46,263**	(113,295)	(86,661)
Withholding tax suffered	**(65)**	(95)	(133)
Increase in accrued income	**(410)**	(114)	(168)
(Increase)/decrease in other debtors	**(2)**	125	140
(Decrease)/increase in other creditors	**(22)**	81	47
Exchange losses	**68**	128	122
Net cash inflow from operating activities	**775**	**1,406**	**2,106**

Investment Portfolio

As at 31 December 2011

Company	Sector	Valuation £'000	Net assets %
Extract Resources	Uranium	7,797	4.0
Kalahari Minerals	Uranium	7,728	4.0
REA Holdings (Note 1)	Palm oil	7,025	3.6
New Britain Palm Oil	Palm oil	5,973	3.1
Ausgold (Note 2)	Gold	5,024	2.6
Neo Material Technologies (Note 3)	Rare earth	4,843	2.5
Silver Wheaton	Silver	3,717	1.9
Extorre Gold Mines	Gold	3,245	1.7
Kingsrose Mining	Gold	3,241	1.6
Coalspur Mines	Coal	3,064	1.6
Top ten investments		51,657	26.6
Perseus Mining	Gold	2,879	1.5
Fortuna Silver Mines	Silver	2,627	1.3
Detour Gold (Note 4)	Gold	2,591	1.3
Rockgate Capital (Note 5)	Uranium	2,538	1.3
Iluka Resources	Titanium	2,532	1.3
Newstrike Capital	Gold	2,504	1.3
Silver Lake Resources	Silver	2,463	1.3
Paladin Energy	Uranium	2,456	1.3
Newcrest Mining	Gold	2,430	1.3
Integra Mining	Gold	2,344	1.2
Top twenty investments		77,021	39.7
Skipton Building Society (Note 6)	Finance	2,272	1.2
Antares Energy 10% 31/10/2013	Oil & gas	2,266	1.2
Dannemora Minerals 11.75% 22/03/2016	Iron ore	2,189	1.1
Ferrous Resources *	Iron ore	2,137	1.1
DDI Holding Abanin 9.3% 19/01/2012	Oil & gas	2,136	1.1
Goldcorp	Gold	2,129	1.1
Great Western Minerals (Note 7)	Rare earth	2,036	1.0
Horizon Oil (Note 8)	Oil & gas	1,968	1.0
Western Areas 8% 02/07/2012	Oil & gas	1,938	1.0
First Quantum Minerals	Copper	1,890	1.0
Top thirty investments		97,982	50.5
New Gold (Note 9)	Gold	1,875	1.0
Endeavour Mining	Gold	1,849	0.9
Golden Prospect Precious Metals +	Gold	1,829	0.9
Asian Plantations	Palm oil	1,771	0.9
Resolute Mining (Note 10)	Gold	1,704	0.9
Sandfire Resources	Copper	1,694	0.9
Santander (Note 11)	Finance	1,683	0.9
Norwegian Energy 12.9% 20/11/2014	Oil & gas	1,666	0.9
Equatorial Resources	Iron ore	1,645	0.8
Mineral Deposits	Gold	1,641	0.8
Top forty investments		115,339	59.4
Gryphon Minerals	Gold	1,640	0.8
Advance Energy 9.5% Cv 04/01/2015	Oil & gas	1,625	0.8
Deep Drilling 12% 21/12/2015	Oil & gas	1,590	0.8
Uranium Participation	Uranium	1,585	0.8
Polar Star Mining	Copper	1,584	0.8
Santos Finance 8.25% 22/09/2070	Oil & gas	1,529	0.8
IAMGOLD	Gold	1,522	0.8
APA Group	Oil & gas	1,471	0.8
Wessex Exploration	Oil & gas	1,456	0.8
Detnor FRN 9.75% 28/01/2016	Oil & gas	1,449	0.8
Top fifty investments		130,790	67.4

Investment Portfolio (continued)

As at 31 December 2011

Company	Sector	Valuation £'000	Net assets %
Rockridge Capital (Note 12)	Financial	1,419	0.7
Crescent Point Energy	Oil & gas	1,414	0.7
Consolidated Minerals 8.875% 01/05/2016	Diversified minerals	1,392	0.7
Golden Close Marit 11% 09/12/2015	Gold	1,346	0.7
Odyssey Energy (Note 13)	Oil & gas	1,340	0.7
TAG Oil	Oil & gas	1,329	0.7
Raven Russia 12% Pref Shs	Property	1,285	0.7
Patagonia Gold	Gold	1,283	0.7
Intrepid Mines	Gold	1,247	0.6
Osisko Mining	Gold	1,232	0.6
Top sixty investments		144,077	74.2
HBOS (Note 14)	Finance	1,185	0.6
Ocean Rig UDW 9.5% 27/04/2016	Oil & gas	1,175	0.6
Skywest Airlines	Transport	1,170	0.6
European Gas	Oil & gas	1,156	0.6
Kinross Gold (Note 15)	Gold	1,123	0.6
Great Panther Silver	Silver	1,123	0.6
Mountain Province Diamonds	Diamonds	1,106	0.6
National Westminster 9.0% NC Pref Shs Series A	Finance	1,078	0.6
First Australian Resources (Note 16)	Oil & gas	1,068	0.5
Balfour Beatty 10.75% Pref Shs	Alternative energy	1,054	0.5
Top seventy investments		155,315	80.0
Ecclesiastical Insurance 8.625% Pref Shs	Finance	1,042	0.6
Olympus Pacific Minerals	Gold	1,038	0.5
Rubicon Offshore FRN 16/04/2014	Oil & gas	1,030	0.5
Societe Internationale de Plantations	Rubber	999	0.5
Saracen Mineral Holdings	Gold	985	0.5
RL Finance 6.125% 29/12/2049	Finance	979	0.5
Union Agriculture Group Placing *	Agriculture	969	0.5
Union Minerals Group	Base metals	966	0.5
Cornstorm Placing *	Oil & gas	965	0.5
Chloe Marine Demtro 12% 28/12/2016	Oil & gas	946	0.5
Top eighty investments		165,234	85.1
Other investments		46,714	24.1
Total investments		211,948	109.2
Net current assets		16,624	8.6
3.5% Convertible Unsecured Loan Stock 2018		(34,476)	(17.8)
Net assets		**194,096**	**100.0**

Note 1 - Includes REA Holdings Cum Pref Shs valued at £4,479,910 and REA Finance 9.5% 31/12/2017 valued at £515,000
Note 2 - Includes warrants valued at £2,659,749
Note 3 - Includes Neo Material Technologies 5% Cv 31/12/2017 valued at £1,158,989
Note 4 - Includes Detour Gold 5.5% Cv 30/11/2017 valued at £617,254
Note 5 - Includes warrants valued at £90,557*
Note 6 - Includes Skipton 10% 12/12/2018 valued at £1,350,000 and Skipton 6.75% 30/05/22 valued at £921,798
Note 7 - Includes warrants valued at £227,960*
Note 8 - Includes Horizon Oil 5.5% 17/06/16 valued at £391,437
Note 9 - Includes warrants valued at £241,327 and New Gold 10% 28/06/17 valued at £668,074
Note 10 - Includes Resolute Mining 12% Cv 31/12/2012 valued at £1,168,976
Note 11 - Includes Santander Non Cum Pref Shares valued at £820,000 and Santander 11.3% 27/07/14 valued at £862,900
Note 12 - Includes warrants valued at £47,247*
Note 13 - Includes warrants valued at £305,781
Note 14 - Includes HBOS 6.461% 29/11/2049 valued at £614,500 and HBOS Cap 6.85% Perp valued at £571,028
Note 15 - Includes warrants valued at £25,605*
Note 16 - Includes First Australia Resources 15% Cv 31/01/2012 valued at £766,183

* Denotes an unquoted security
+ Denotes a related party investment

Notes to the Accounts

1. The unaudited interim results which cover the six months to 31 December 2011 have been prepared in accordance with applicable accounting standards and adopting the accounting policies set out in the statutory accounts of the Company for the year ended 30 June 2011.

   The interim results have been prepared using the same accounting policies as the preceding annual accounts, with the addition of the following accounting policy which is in accordance with the relevant accounting standard;

   3.5% Convertible Unsecured Loan Stock 2018 ("CULS") 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 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.

2. A first interim dividend of 0.77p per share was paid on 25 November 2011. A second interim dividend of 0.77p per share was paid on 24 February 2012.

3. Included within losses on investments for the period ended 31 December 2011 are realised gains of £7,688,000 and unrealised losses of £53,951,000.

4. The breakdown of income for the six months to 31 December 2011, 31 December 2010 and the year to 30 June 2011 was as follows:

	Six months ended 31 December 2011 £'000	Six months ended 31 December 2010 £'000	Year ended 30 June 2011 £'000
Income from investments			
UK dividend income	**465**	437	865
Overseas dividends	**478**	632	846
Interest on fixed interest securities	**1,957**	1,776	3,694
	2,900	2,845	5,405
Other income			
Deposit interest	**3**	1	7
Other income	**3**	22	35
Total income	**2,906**	2,868	5,447

5. The revenue return per ordinary share is based on a net profit after tax of £1,623,000 (31 December 2010 – £1,871,000 and 30 June 2011 – £3,404,000) and on a weighted average of 66,857,143 ordinary shares (31 December 2010 – 66,857,143 and 30 June 2011 – 66,857,143).

   The capital return per ordinary share is based on a net capital loss after tax of £47,336,000 (31 December 2010 – a gain of £112,424,000 and 30 June 2011 – a gain of £84,896,000) and on a weighted average of 66,857,143 ordinary shares (31 December 2010 – 66,857,143 and 30 June 2011 – 66,857,143).

6. The net asset value per ordinary share is based on net assets at the period end of £194,096,000 (31 December 2010 – £263,706,000, 30 June 2011 – £236,788,000) and on 66,857,143 (31 December 2010 – 66,857,143 and 30 June 2011 – 66,857,143) ordinary shares, being the number of ordinary shares in issue at the period end. The net asset value per ordinary share at 31 December 2011 was 290.31p.

7. **3.5% Convertible Unsecured Loan Stock 2018**

	Number of units £'000	Liability component £'000	Equity component £'000
Balance at the beginning of the period	–	–	–
Issue of 3.5% Convertible Unsecured Loan Stock 2018	40,000	34,931	5,069
Expenses of issue	–	(656)	(96)
Amortisation of discount on issue and issue expenses	–	201	–
Transfer of CULS liability discount amortisation	–	–	(178)
Balance at the end of the period	**40,000**	**34,476**	**4,795**

On 26 September 2011, the Company issued a total of £40,000,000 nominal of 3.5% Convertible Unsecured Loan Stock 2018 ("CULS"). The CULS can be converted at the election of holders into ordinary shares during the months of March and September each year throughout their life, commencing March 2012 to January 2018 at a rate of 1 ordinary share for every 377.1848p nominal of CULS. Once 80% 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 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 31 December 2011, there was £40,000,000 nominal of CULS in issue.

8. **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	–	–	–	(68)	–
Losses on investments	–	–	–	(46,263)	–
Management fees charged to capital	–	–	–	(964)	–
Finance costs charged to capital	–	–	–	(562)	–
Taxation credited to capital	–	–	–	521	–
Dividends paid	–	–	–	–	(1,952)
Retained net revenue for the period	–	–	–	–	1,623
Issue of 3.5% Convertible Unsecured Loan Stock 2018	–	–	5,069	–	–
Expenses of issue	–	–	(96)	–	–
Transfer of CULS liability discount amortisation	–	–	(178)	178	–
At 31 December 2011	**30,386**	**4,753**	**4,795**	**133,198**	**4,250**

9. The Company's investment manager is CQS Cayman Limited Partnership which has delegated this function to its wholly owned subsidiary New City Investment Managers ('NCIM'). CQS receive a basic 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. During the period investment management fees of £1,285,000 were incurred, of which £190,000 was payable at the period end.

As at 31 December 2011, the Company held shares in New City Energy and Golden Prospect Precious Metals; these two investment companies are also managed by the Manager. The valuations of these holdings are deducted from gross assets when calculating the management fee.

Notes to the Accounts (continued)

10. 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 operation for the foreseeable future. For this reason the Directors are satisfied that it is appropriate to adopt the going concern basis in preparing this report.

11. The results for the six months ended 31 December 2011 and 31 December 2010, which have not been reviewed by the Company's auditors pursuant to the Auditing Practices Board guidance on "Review of Interim Financial Information", constitute non-statutory accounts in terms of Section 434 of the Companies Act 2006. The latest published accounts which have been delivered to the Registrar of Companies are for the year ended 30 June 2011; the report of the auditors thereon was unqualified and did not contain a statement under Section 498 of the Companies Act 2006. The abridged financial statements shown above for the year ended 30 June 2011 are an extract from those accounts.

12. The report and accounts for the half-year ended 31 December 2011 will be posted to shareholders and made available on the website www.ncim.co.uk. Copies may also be obtained from the Company Secretary, R&H Fund Services Limited, Lochside House, 7 Lochside Avenue, Edinburgh, EH12 9DJ.

R&H Fund Services Limited
Secretaries

28 February 2012

Classification of Investments by Stock Market Quotation

	As at 31 December 2011 % of total investments	As at 31 December 2010 % of total investments	As at 30 June 2011 % of total investments
Australia	**33.8**	44.2	39.1
Canada	**27.9**	27.7	27.1
United Kingdom	**20.9**	17.7	17.3
United States	**10.1**	3.2	6.2
Norway	**1.7**	0.6	0.6
Europe	**1.2**	1.6	1.4
Hong Kong	**0.2**	–	—
Papua New Guinea	**0.1**	0.1	3.0
Unquoted	**4.1**	4.9	5.3
Total investments	**100.0**	**100.0**	**100.0**

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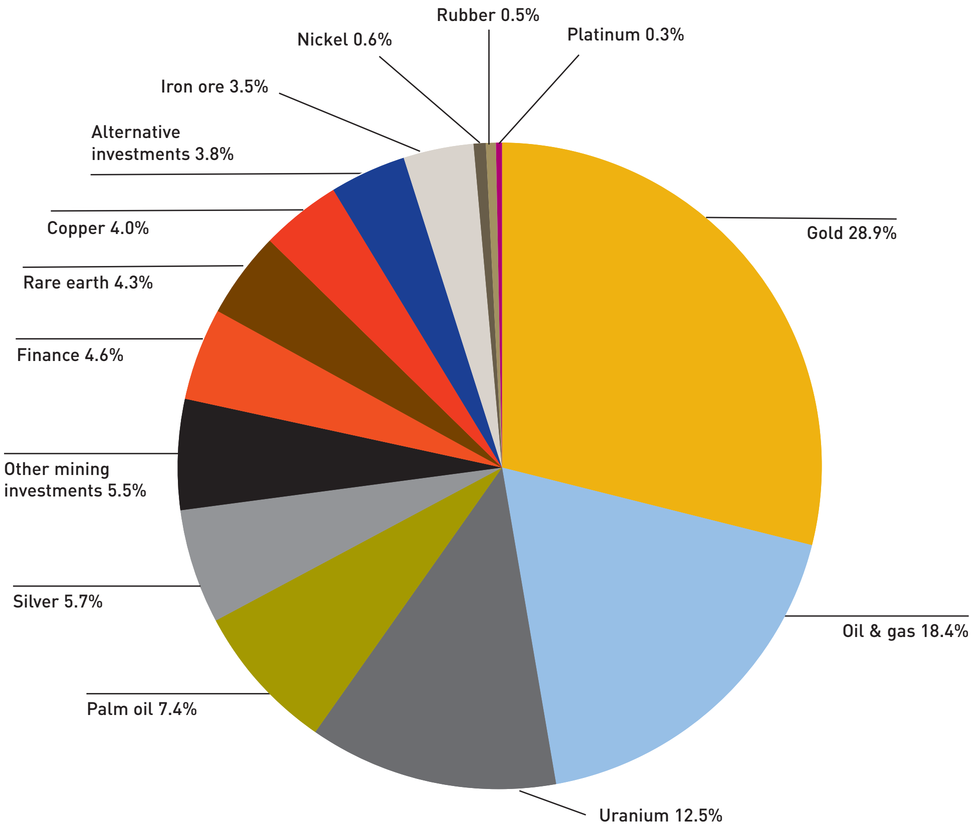
Sector Split by Resources

	As at 31 December 2011 % of total investments	As at 31 December 2010 % of total investments
Gold	**28.9**	28.1
Oil & gas	**18.4**	11.4
Uranium	**12.5**	13.4
Palm oil	**7.4**	6.1
Silver	**5.7**	5.8
Other mining investments	**5.5**	4.6
Finance	**4.6**	3.0
Rare earth	**4.3**	6.2
Copper	**4.0**	8.8
Alternative investments	**3.8**	3.9
Iron ore	**3.5**	5.2
Nickel	**0.6**	1.6
Rubber	**0.5**	0.8
Platinum	**0.3**	1.1
	100.0	**100.0**

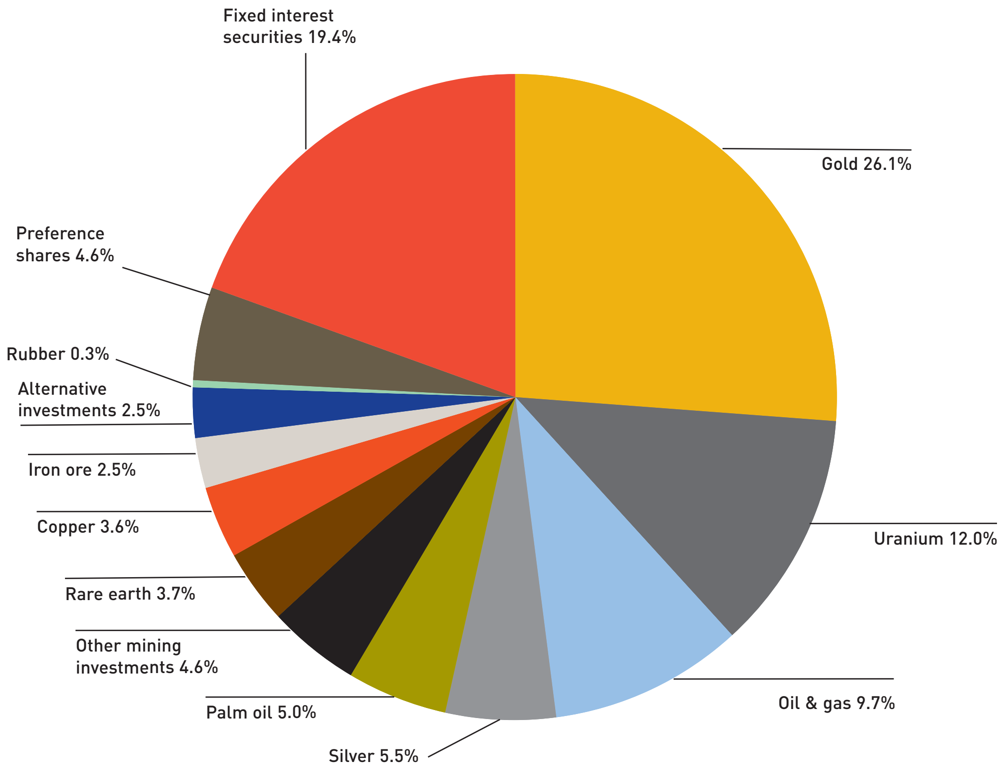
As at 31 December 2011



Sector Split by Resources including Fixed Interest Securities

	As at 31 December 2011 % of total investments	As at 31 December 2010 % of total investments
Gold	**26.1**	26.4
Uranium	**12.0**	12.0
Oil & gas	**9.7**	7.0
Silver	**5.5**	5.1
Palm oil	**5.0**	4.5
Other mining investments	**4.6**	3.8
Rare earth	**3.7**	6.2
Copper	**3.6**	8.5
Iron ore	**2.5**	5.2
Alternative investments	**2.5**	3.0
Rubber	**0.5**	0.7
Platinum	**0.3**	1.1
Nickel	**0.0**	1.3
Preference shares	**4.6**	2.2
Fixed interest securities	**19.4**	13.0
	100.0	**100.0**

As at 31 December 2011



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Directors' Statement of Principal Risks and Uncertainties

The Company's assets consist principally of listed equities and fixed interest securities and its principal risks are therefore market related. The Company is also exposed to currency risk in respect of the markets in which it invests. Other key risks faced by the Company relate to investment and strategic, regulatory, operational matters and financial controls. These risks, and the way in which they are managed, are described in more detail under the heading 'Principal risks and risk management' within the Directors' Report and Business Review contained within the Company's annual report and accounts for the year ended 30 June 2011. The Company's principal risks and uncertainties have not changed materially since the date of the report and are not expected to change materially for the rest of the Company's financial year.

Statement of Directors' Responsibilities in Respect of the Financial Statements

In accordance with Chapter 4 of the Disclosure and Transparency Rules the Directors confirm that to the best of their knowledge:

- the condensed set of financial statements has been prepared in accordance with applicable UK accounting standards and gives a true and fair view of the assets, liabilities, financial position and return of the Company;
- the half-yearly report includes a fair review of the important events that have occurred during the first six months of the financial year and their impact on the financial statements;
- the Directors' Statement of Principal Risks and Uncertainties shown above is a fair review of the principal risks and uncertainties for the remainder of the financial year; and
- the half-yearly report includes details of related party transactions.

On behalf of the Board

Geoff Burns
Chairman

28 February 2012

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 Investment Plan. Details of these can be obtained from Halifax Share Dealing Limited ('HSDL') on 0845 850 0181.

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

The Investment Plan

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

The ISA

The ISA is a way of investing money without having to pay income or capital gains tax on any profits made or dividend income received. Up to £10,680 may be invested in an ISA for the 2011/12 tax year and £11,280 for the 2012/13 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

An ISA may be transferred from other ISA 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 NCIM 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.

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** 5th 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** One London Wall London EC2Y 5AB
Financial Adviser and Sponsor	**Canaccord Genuity Ltd** Cardinal Place 7th Floor, 80 Victoria Street London SW1E 5JL
Auditors	**KPMG Audit Plc** 20 Castle Terrace Edinburgh EH1 2EG
Bankers and Custodian Bankers	**HSBC Bank plc** 8 Canada Square London E14 5HQ
Registrars	**Equiniti** Aspect House Spencer Road, Lancing West Sussex BN99 6DA Shareholder Helpline: 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.

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