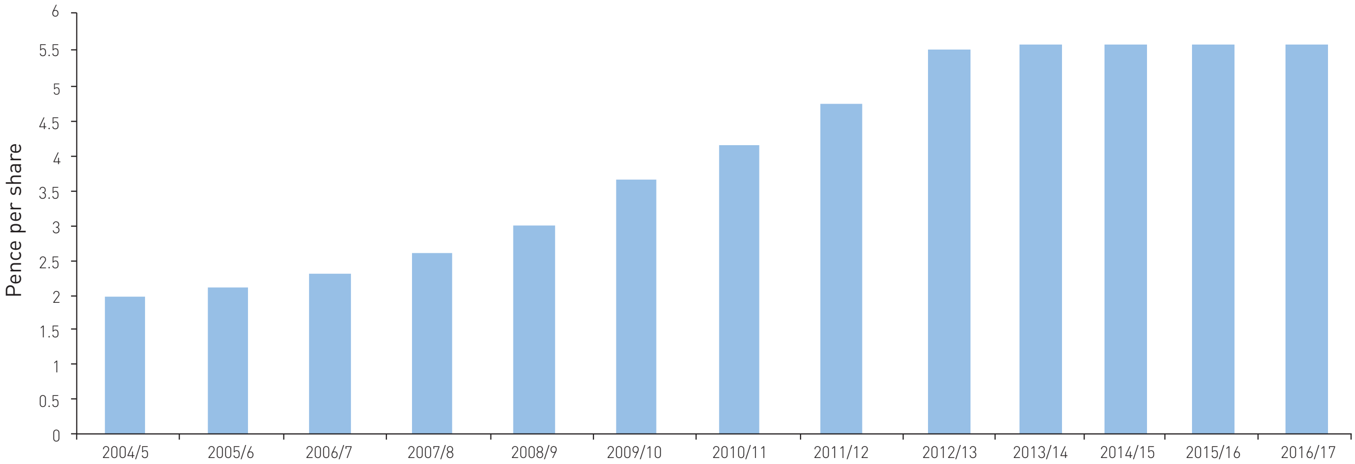
city natural
resources
high yield trust plc

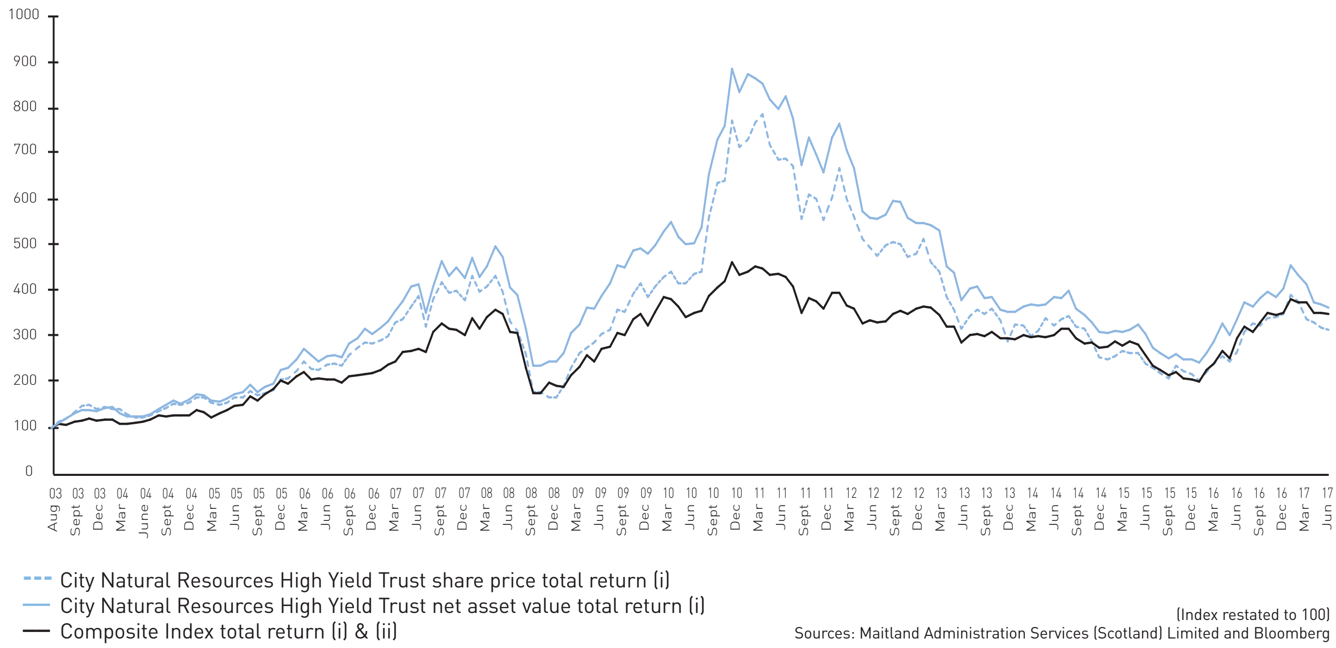
Annual Report

30 June 2017

Dividends Declared in Respect of Each Financial Year



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



(Index restated to 100)
Sources: Maitland Administration Services (Scotland) Limited and Bloomberg

(i) Net dividends reinvested.

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

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

Our Objective

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

Contents

Financial Highlights

Total Return*	Year to 30 June 2017	Year to 30 June 2016	Period from 1 August 2003 to 30 June 2017
Net asset value	**7.9%**	10.7%	260.9%
Ordinary share price	**17.8%**	10.8%	211.4%
Composite index	**17.7%**	14.2%	245.5%
Euromoney Global Mining Index (sterling adjusted)	**18.4%**	13.0%	236.8%
Credit Suisse High Yield Index [sterling adjusted]	**16.4%**	16.5%	262.8%

Capital Values	30 June 2017	30 June 2016	% change period
Net asset value per share	**132.7p**	127.4p	4.2%
Ordinary share price (mid market)	**110.1p**	98.5p	11.8%
3.5% Convertible Unsecured Loan Stock ("CULS") (mid market)	**99.8p**	95.5p	4.5%

Revenue and Dividends	30 June 2017	30 June 2016	% change period
Earnings per ordinary share	**5.08p**	5.08p	–
Dividends per ordinary share	**5.60p**	5.60p	–
Dividend Yield	**5.1%**	5.7%	
Discount (difference between share price and fully diluted net asset value)	**17.0%**	22.7%	
Gearing*			
Gearing provided by CULS	**23.0%**	20.0%	
Ongoing charges (as a percentage of average shareholders' funds)	**1.8%**	1.8%	

Period's Highs/Lows	Year to 30 June 2017 High	Year to 30 June 2017 Low
Net asset value per share	**171.5p**	128.3p
Ordinary share price (mid market)	**147.4p**	98.25p
Discount	**33.7%**	12.8%

Dividend History	Rate	xd date	Record date	Payment date
Fourth interim 2017	3.02p	27 July 2017	28 July 2017	31 August 2017
Third interim 2017	0.86p	27 April 2017	28 April 2017	26 May 2017
Second interim 2017	0.86p	26 January 2017	27 January 2017	28 February 2017
First interim 2017	0.86p	27 October 2016	28 October 2016	25 November 2016
Total	5.60p			
Fourth interim 2016	3.02p	28 July 2016	29 July 2016	26 August 2016
Third interim 2016	0.86p	28 April 2016	29 April 2016	27 May 2016
Second interim 2016	0.86p	28 January 2016	29 January 2016	29 February 2016
First interim 2016	0.86p	29 October 2015	30 October 2015	27 November 2015
Total	5.60p			

* A glossary of the terms used can be found on page 48.

Chairman's Statement

Introduction

A year of consolidation, which saw the progress made in the year to 30 June 2016 built upon and shareholders' patience further rewarded.

Investment and Share Price Performance and Discount Control

At 30 June 2017 your Company's net asset value stood at 132.7 pence per share, giving a net asset value total return for the year of 7.9 per cent. The benchmark index returned 17.7 per cent.

The Company's net asset value pushed ahead strongly until February 2017, before giving up some of its gains in the face of market weakness; however, it has been resilient over recent months and stands at 138.2 pence per share as I write.

The Company's ordinary share price total return of 17.8 per cent for the year to 30 June 2017 was better than its net asset value total return, reflecting a narrowing of the discount at which the Company's shares trade from 22.7 per cent to 17.0 per cent during the year. The average discount over the year to 30 June 2017 was 17.3 per cent and over three years it was 18.2 per cent.

I wrote at some length in September 2016 on discount control, and it remains the Board's aim to mitigate the discount at which the Company's shares trade by good long term performance. Over the long term, since the redirection of the Company in 2003, the net asset value total return is 260.9 per cent, ordinary share price total return 211.4 per cent, and benchmark total return 245.5 per cent.

The share price is 110.25 pence and the discount stands at 20.2 per cent at the time of writing.

Income and Dividends

Income and dividends have been a focus of the Company, with dividends per share now 2.8 times the amount paid in 2004. The Board believes they contribute an important element of stability in our volatile asset class.

This year's fourth interim dividend of 3.02 pence per share brought the total dividend for the year to 5.60 pence, the same level as was paid last year and the year before. Earnings per share of 5.08 pence were at the same level as last year and mean that the dividend for the year was again uncovered. I would repeat that the Board has no qualms about utilising revenue reserves to maintain current dividend levels, so long as longer term income generation is deemed safe. The revenue reserve, which stands at 5.9 pence per share after the payment of the fourth interim dividend, has been built up against just this sort of eventuality.

The yield on the Company's shares is 5.1 per cent as I write.

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

Gearing was generally maintained in the range of 20 per cent to 25 per cent of shareholders' funds during the year, 25 per cent being the upper limit allowed under the Company's investment policy. It was 23 per cent at the year end.

The Company had £34.5 million nominal of CULS in issue at 30 June 2017. The CULS price rose from 95.5 pence to 99.8 pence during the year.

The CULS mature at the end of September next year and the Board has begun the task of considering how this will be best managed in the interests of Shareholders.

Board Changes

There have been no changes to the Board during the year, but Adrian Collins has announced that he will not be standing for re-election at the Annual General Meeting this year. Adrian has been on the Board for 22 years and represents the last link with the Company's previous existence as Aberdeen Latin American Securities Trust plc before its change of name and direction in 2003. He was Chairman of the Company in 2004/5. Adrian has made an extraordinary contribution to your Board. His advice and experience has been invaluable, not least in some of the particularly difficult situations this sector has faced, and he will be greatly missed. I am sure I can speak for all shareholders in expressing our appreciation.

In continuation of the previously advised Board development programme, we utilised an independent search entity to find new directors. I am pleased to say that we propose to appoint two new Directors with effect from 1st October, after the annual results have been announced. They are Christopher Casey and Carole Cable. Christopher was a KPMG partner until 2010 since when he has carried out a number of non-executive board roles including chairman of China Polymetallic Mining Ltd. Carole has had a career connected to the mining and commodities sector, initially on the sell side at JP Morgan and Credit Suisse, and currently as a partner and co-head of the Energy and Resources division at Brunswick Group LLP, where she advises clients in the mining sector. Between them they complement and deepen the Board's natural resources sector experience and I am sure they will make a vital contribution to our deliberations and decisions. We are delighted they have chosen to join us. Both will stand for election at the forthcoming AGM and fuller biographies are included for both in the Notice of Annual General Meeting.

Auditor

Following an audit tender process, BDO LLP was appointed auditor to the Company, replacing KPMG LLP, who had been the Company's auditors for more than 20 years.

Outlook

The result of the UK general election in June was another demonstration of both the uncertainty that characterises our public world, and the central position that political risk has come to assume in any assessment of the outlook generally, and of our investment portfolio more particularly. If the Conservatives' loss of a majority in the face of the forthcoming Brexit negotiations might be dismissed as a little local difficulty, the instability of President Trump's United States cannot be. The US administration's notification of intent to withdraw from the 2015 Paris climate change agreement and the threat to start an investigation over Chinese intellectual property rights abuses and policies under the punitive Section 301 of the 1974 Trade Act could hardly be more directly relevant to us, while tensions mount concerning relations with Iran and the Middle East. Then, there are North Korea's nuclear ambitions, and related aggressive posturing, which have had a positive effect on our gold holdings of late.

In spite of this increased geo-political risk, equity markets continue to move ahead, with few signs that the post Financial Crash bull market is done. The most important factor underpinning it is the ever growing level of global debt, which is now in excess of $150 trillion, well over twice the size of the global economy, more than one third of which is government debt. The extraordinarily low interest rates that have allowed this expansion of debt are something that I have written about before; they cannot continue for ever, but it is futile to guess when the day of reckoning will dawn.

In the meantime, there are a number of positive indicators for commodity markets, not least increasing confidence as to Chinese stability and its continued solid growth rate, alongside a determined focus on the $5 trillion Belt and Road initiative, which will be an important driver of commodity demand for the next decade.

At a portfolio level, our exposure to energy in general, and to oil and gas in particular, remains low. Cheap gas for power generation and abundant oil supplies are combining with the plunging costs of renewable power and electricity storage, and the rise of electric cars, pointing to a brave new world in which Tesla's place as the most valuable car manufacturer in the United States is symbolic. A number of metals processed by companies in our portfolio are sensitive to the increasing demand for electricity storage. This fact, along with signs of the continued developed world economic recovery, and the prospect for increased infrastructure spend with growing urbanisation, confirms our confidence in the future of your Company.

Geoff Burns
Chairman
27 September 2017

Investment Manager's Review

The year to June 2017 was marked by a slowing trajectory in commodity price appreciation. The Company's net asset value ("NAV"), having risen over 35% at its peak in the March quarter, subsequently retreated with a broader pull-back in the resources markets towards the year-end. Similarly Sterling's post Brexit weakness, helpful to first half NAV performance, reversed. As a result the Company returned 7.9% over the year. The effect of currency fluctuations on income was mitigated by hedging and the Company maintained its dividend which contributed appreciably to full year shareholder returns.

Economic trends encouraging

Improving economic conditions among major economies and the boost to US growth prospects promised by President Trump flowed through into the New Year, allowing investors to look through the belated succession of post-election rate increases by the Federal Reserve and sustaining commodity price rises into the March quarter. However, investor risk appetite and commodity prices subsequently fell back after Chinese authorities implemented another bout of measures to reduce financial sector risks and cool property prices, whilst Trump's growth plans stalled having failed to gain Senate funding approval. Neither factor, we believe, alter the resilient underlying picture; China's pre-emptive measures reflected a belief that regional growth could accommodate the moves which help reduce future systemic risks from overleverage while post-election fund flows appeared to exaggerate the incremental benefit of proposed United States infrastructure investment.

While exuberance has dissipated we remain encouraged by improvement in the macro environment trends. Notably, China is managing to sustain better-than-expected economic growth despite the dampening effect of earlier interventions and credit growth is rebounding. Elsewhere the United States continues to recover without contribution from Trump policy while the New Year also saw improving European economic trends. The latter two points should lead more hawkish central bank policy over the next 12 months including a further US rate rise and a reduction of European Central Bank stimulus. In the longer-term, we also highlight that China's underlying consumption growth of higher value metals such as copper has been incredibly resilient despite financial market volatility.

Supply side discipline

Of equal importance, following years of declining investment from the mining major's, many commodities are feeling the effects of a drop-off in the rate of new supply additions. This is especially the case for base metals which led gains. Zinc, a key exposure within the Company, saw the LME price rise over 30% during the year to June and it continues to rise, helping strong performance for stocks such as Trevali. The zinc market looks increasingly tight following the closure of large mines such as Century and Lisheen, and environmental audits are limiting domestic Chinese output. Warehouse inventories continue to be drawn down to levels approaching 10 days-worth of demand and prices are responding accordingly. Copper was the next best base metal performer rising over 20% through the year. Nickel was weighed down by easing export legislation by the two largest producers, Indonesia and the Philippines, though we remain optimistic on its outlook due to its increasing usage to produce higher quality stainless steel and possible use in developing battery technologies. The holding in low cost Russian producer Norilsk also provides significant dividend income.

Encouragingly, major mining corporations are showing restraint, with management instead focussing on free cash flow generation, debt pay down and shareholder returns. Expenditure budgets for greenfield development projects remain minimal. China also continues to tighten domestic mining regulations and where necessary is forcing a consolidation to form national champions. At current valuations we believe future growth would more sensibly focus on acquisitions of existing output, which ultimately would not add incremental supply, and would favour the more attractively valued smaller capitalised stocks to which the Company is exposed.

Bulk commodities also performed well, though proved markedly more volatile than base metal prices, with environmentally focused closures in China the major driver. Coal fed power stations and metal refiners continue to favour higher grade inputs to reduce polluting emissions. Coking coal prices were highly volatile against this backdrop, highlighting a market that is clearly much tighter than many had anticipated, with Australian benchmark product trading from below $100/t to a high of $300/t before settling around $200/t at the time of writing. This dynamic is also reflected within iron ore, with higher grade iron imports up significantly at the expense of lower grade domestic Chinese iron ore. This was evident with the 62% Fe benchmark trading a $10-20/t premium to the 58% Fe benchmark. The Company has little exposure to iron ore, preferring instead to focus on metals like zinc and nickel which also benefit from a steel quality upgrade cycle in China and which have less potential for significant growth in supply.

Insurance still has value

Gold lagged industrial metals' performance with prices declining 4% over the financial year. Cyclical "risk" assets were the clear beneficiary of fund flows at the expense of safe haven assets during the period. Donald Trump's surprise election as US President was a significant driver behind this. His pro-US growth stance and prospect of rising rates saw a rapid and significant withdrawal of funds from precious metal funds. Gold's lagging performance has subsequently played catch up and precious metals prices have latterly garnered support from US dollar weakness as stubbornly low US inflation prompted more dovish commentary from the Federal Reserve, reducing expectations of further US rate rises. At the same time the European Central Bank flagged a willingness to taper its programme of quantitative easing. Equally importantly, recent escalating tensions with North Korea have provided further boost to safe haven assets and therefore gold prices. Notwithstanding geo-political risks the ever rising US debt ceiling, expected to be reached in October, provides a reminder to the still high debt levels globally and value of insurance in such an environment. Consequently, the Fund retains material precious metals exposure, currently around 15% of assets.

Energy opportunities less obvious

Oil also lagged other commodities with prices remaining very much range bound, as expected. Despite prices responding relatively well to OPEC and Russian production quotas introduced around the turn of the calendar year, a rise in US onshore production has usurped the mantle of swing producer. In-so-doing, US production has raised questions as to the strategic sense in OPEC and Russia continuing or deepening output cuts. Oil remains capped in the mid $50's per barrel by a wall of 2018 forward selling from US shale producers, highlighting their economic incentive level. Saudi's 2-3 year programme of fiscal reform, targeting a neutral budget based on a $40 per barrel crude price, represents a reasonable floor. Though oil prices ended the period unchanged at $46 a barrel, related equities declined.

Thematic investment and valuation process key

Thematic investing continues to make a very important contribution to Company returns. In particular, China's commitment to environmental reform has been a considerable driver of zinc prices as China seeks to reduce water pollution resulting from the lead which is geologically associated, and therefore mined, with zinc. With a share price rise of over 100% during the year, zinc miner Trevali made a stand-out contribution to performance, which has continued into the current financial year. Exposure to energy remains minimal and is principally via shippers who should benefit from improving day rates given the outlook of more positive US-Asia arbitrage and higher US export volumes against a background of capacity reductions, as surplus ageing fleet is retired.

Valuation remains key to our process. Recently the GDXJ gold equity ETF relaxed its market cap restrictions to incorporate midcap producers and reduce the weighting towards smaller-cap stocks. Illustrative of the growth of passive investment, this technical rebalancing caused considerable underperformance among smaller capitalised stocks that the Company typically invests in and consequently some relative value switching was undertaken which we believe will favourably unwind as the adjustment is digested.

Mandated income focus

The Company's payment of its dividend from income continues to require careful consideration in the balance of the portfolio as bonds remain the backbone of revenue. Representing around 30% of assets they currently generate over 60% of income. The low interest rate environment and low levels of dividend yield within the sector has led to a greater proportion of the Company's assets being allocated toward income generating positions. The Company's portfolio is being managed to optimise capital growth exposure against income generation within the Company, preferring a minimal drawdown of the healthy income reserves in order to best achieve this.

Ian Francis, Keith Watson, Rob Crayfourd
New City Investment Managers

27 September 2017

Classification of Investment Portfolio by Sector

As at 30 June	2017 % of total investments	2016 % of total investments
Gold	14.7	17.3
Base Metals	13.3	8.8
Copper	7.5	8.9
Shipping	7.5	3.4
Oil & Gas	4.6	4.0
Nickel	4.5	2.8
Agriculture	3.7	5.8
Silver	3.2	3.7
Uranium	2.7	4.4
Alternative energy	1.8	3.1
Coal	1.7	–
Iron	0.9	–
Lithium	0.9	0.5
Palm Oil	0.6	0.4
Other mining interests	0.1	3.5
Fixed Interest Securities	18.7	15.9
Preference Shares	8.3	7.6
Treasury Stock	5.3	9.9
Total Investments	100.0	100.0

Classification of Investments by Stockmarket Quotation

As at 30 June	2017 % of total investments	2016 % of total investments
Canada	30.8	28.5
UK	26.5	38.6
Australia	15.1	13.8
Europe	14.5	6.6
US	11.6	8.7
Singapore	0.5	0.3
Unquoted	1.0	3.5
Total Investments	100.0	100.0

Investment Portfolio

as at 30 June 2017

Company	Sector	Valuation £'000	Total Investments %
Trevali Mining	Base metals	9,259	8.2
REA Holding (note 1)	Palm oil	5,602	5.0
First Quantum Minerals	Copper	5,035	4.5
PJSC MMC Norilsk Nickel	Nickel	4,552	4.0
Trafigura Beheer ** (note 2)	Finance	4,286	3.8
Ascendant Resources (note 3)	Base metals	4,282	3.8
Louis Dreyfus 8.25% 29/12/2049**	Various	3,097	2.7
Plant Impact	Agriculture	2,864	2.5
Central Asia Metals	Copper	2,809	2.5
West African Resources	Gold	2,672	2.4
Top ten investments		44,458	39.4
Americas Silver (note 4)	Silver	2,373	2.1
Independence Group	Gold	2,331	2.1
BW LPG	Oil & gas	2,163	1.9
Tizir 9% 28/09/2017**	Rare earth	2,099	1.9
Greencoat UK Wind	Alternative energy	1,985	1.7
Arch Coal	Base metals	1,939	1.7
National Westminster 9.0% Preference shares	Finance	1,773	1.6
Bluewater Holding 10% 10/12/2019	Oil & gas	1,679	1.5
Goodbulk	Shipping	1,630	1.4
Euronav (note 5)	Shipping	1,517	1.3
Top twenty investments		63,947	56.6
Roxgold	Gold	1,277	1.1
Scorpio Bulkers	Shipping	1,242	1.1
Raven Russia 12% Preference shares	Property	1,217	1.1
Crown Resorts FRN 14/09/2072**	Other investments	1,209	1.1
Lloyds Banking Group 7.875% 27/06/2029**	Finance	1,168	1.0
Gibson Energy	Oil & gas	1,162	1.0
Odyssey Energy	Oil & gas	1,156	1.0
PizzaExpress Financing 8.625% 01/08/2022**	Other investments	1,130	1.0
Aquila Resources	Gold	1,098	1.0
Metals X	Gold	1,074	1.0
Top thirty investments		75,680	67.0
Fortuna Silver Mines	Silver	1,063	1.0
Base Resources	Mineral sands	1,055	0.9
Westgold Resources	Gold	1,041	0.9
Nexgen Energy	Uranium	1,032	0.9
Jacktel 7% 09/07/2019	Oil & gas	1,025	0.9
Elematic Oy 10% 30/05/2019**	Oil & gas	1,014	0.9
Atlas Iron	Iron	991	0.9
Balfour Beatty 10.75% Pref Shares	Other investments	978	0.9
Pilbara Minerals	Lithium	960	0.9
Mandalay Resources	Gold	911	0.8
Top forty investments		85,750	76.0

Notes to the Investment Portfolio are on page 10.

Company	Sector	Valuation £'000	Total Investments %
Matalan Finance 8.875% 01/06/2020**	Finance	899	0.8
Pretium Resources	Gold	877	0.8
Ecclesiastical Insurance 8.625% Preference Shares	Finance	858	0.8
Altagas Sub Shares	Oil & gas	842	0.7
Drill Rigs 6.5% 01/10/2017**	Oil & gas	818	0.7
Guyana Goldfields	Gold	811	0.7
APT Pipelines FRN 30/09/2072**	Oil & gas	810	0.7
Union Agriculture Group (Placement)*	Agriculture	805	0.7
Sabina Gold & Silver	Gold	784	0.7
Global Ship Lease 10% 01/04/2019	Shipping	723	0.6
Top fifty investments		93,977	83.2
Fission 3.0	Uranium	699	0.6
Gran Colombia Gold** (note 6)	Gold	664	0.6
General Exploration 11.5% 13/11/2018	Gold	645	0.6
UR-Energy USD	Uranium	642	0.6
American Tanker 9.25% 22/02/2022	Shipping	620	0.6
Lydian International	Gold	608	0.5
Foran Mining	Copper	579	0.5
Platinum Group Metals	Platinum	567	0.5
Cardinal Resources	Gold	551	0.5
St George Mining	Nickel	490	0.4
Top sixty investments		100,042	88.6
Frontline	Shipping	454	0.4
Oro Negro Drilling 7.5% 24/01/2019**	Oil & gas	446	0.4
Troy Resources	Gold	425	0.4
US Silica Holdings	Oil & gas	409	0.4
Doray Minerals	Gold	402	0.4
Nevsun Resources	Base metals	368	0.3
Asanko Gold	Gold	361	0.3
Amani Gold	Gold	358	0.3
Foresight Solar	Agriculture	348	0.3
Denison Mines	Uranium	318	0.3
Top seventy investments		103,931	92.1
La Francaise De L'Energie	Oil & gas	256	0.2
Sacgasco	Gold	229	0.2
S2 Resources	Gold	210	0.2
Bluestone Resources	Oil & gas	208	0.2
Polarcus 0% 30/12/2022**	Oil & gas	204	0.2
Santacruz Silver Mining	Silver	201	0.2
Mariana Resources	Gold	196	0.2
Sherritt International 8% 15/11/2018**	Nickel	196	0.2
Kivalliq Energy	Uranium	185	0.1
Dalradian Resources	Gold	162	0.1
Top eighty investments		105,978	93.9
UK Treasury Stocks		5,996	5.3
Other investments		928	0.8
Total investments		112,902	100.0

Top Ten Largest Holdings

	Valuation 30 June 2016 £'000	Purchases £'000	Sales £'000	Appreciation/ (depreciation) £'000	Valuation 30 June 2017 £'000
Trevali Mining Trevali produces and explores for zinc and lead in Peru.	4,064	–	(18)	5,213	9,259
REA Holding (note 1) The Company cultivate oil palms and produces crude oil palm and other palm products.	4,438	–	–	1,164	5,602
First Quantum Minerals Primarily a copper producer with mines in Africa and a large development project in Panama.	5,679	1,195	(1,847)	8	5,035
PJSC MMC Norilsk Nickel The company is a diversified producer of nickel, copper and palladium from mines located in Russia.	2,643	2,160	–	(251)	4,552
Trafigura Beheer (note 2) Large multinational commodity trading and logistics company that trades in base metals and energy.	1,068	3,182	–	36	4,286
Ascendant Resources (note 3) A zinc producer that acquired the mine called El Mochito from Nyrstar for $0.5m.	–	4,586	–	(304)	4,282
Louis Dreyfus 8.25% 29/12/2049 A commodity trader with a focus on metals and agricultural products.	1,129	2,000	–	(32)	3,097
Plant Impact Manufacturer of non-toxic pesticides, fertilisers and other plant health products.	4,406	–	–	(1,542)	2,864
Central Asia Metals The company explores and mines for copper, gold and molybdenum in central Asia.	1,999	–	(171)	981	2,809
West African Resources An Australian listed gold developer and explorer with the Sanbrado discovery in Burkina Faso.	718	1,104	–	850	2,672
Top ten investments	26,144	14,227	(2,036)	6,123	44,458

Notes to the Investment Portfolio

Note 1 – Includes REA Holdings 9% preference shares valued at £4,470,155, REA Holdings valued at £632,000 and REA Finance 8.75% 31/08/2020 ** valued at £500,000.
Note 2 – Includes Trafigura Beheer 7.625% 29/10/2049** valued at £2,728,044 and Trafigura Beheer 6.875% 21/12/2049** valued at £1,557,654.
Note 3 – Includes Ascendant Resources valued at £4,282,259 and warrants valued at nil.
Note 4 – Includes Americas Silver valued at £2,134,706 and Americas Silver warrants valued at £238,833.**
Note 5 – Includes Euronav USD valued at £909,719 and Euronav EURO valued at £607,209.
Note 6 – Includes Gran Columbia Gold 6% 02/01/2020** valued at £663,621 and warrants valued at nil.

* Denotes an unquoted security (unquoted securities of the value £63,969 included within 'other investments')
** Denotes a Level 2 security

Strategic Review

Introduction

This review is part of the Strategic Report being presented by the Company under guidelines for UK-listed Companies' Annual Reports in accordance with The Companies Act 2006, and is designed to provide information primarily about the Company's business and results for the year ended 30 June 2017. It should be read in conjunction with the Chairman's Statement on pages 3 and 4 and the Investment Manager's Review on pages 5 and 6, which give a detailed review of the investment activities for the year and look to the future.

Business Model

The business model of the Company is described below.

Investment Policy

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

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

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

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

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

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

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

Principal Risks and Uncertainties and Risk Mitigation

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

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

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

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

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

Financial Risk – The Company's investment activities expose it to a variety of financial risks that include market price risk, foreign currency risk, interest rate risk and liquidity and credit risk. Further details of these risks and the ways in which they are managed are disclosed in note 16 of the financial statements.

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

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

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

Political risk – Political developments are closely monitored and considered by the Board. The Board has noted the results of the UK referendum on continuing membership of the European Union. Whilst there is considerable uncertainty at present, the Board will continue to monitor developments as they occur and assess the potential consequences for the Company's future activities.

Viability Statement

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

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

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

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

The Board also noted the liquidity risk in the portfolio where the percentage of Level 1 listed investments held at the year end was 78.3%.

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

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

Going Concern

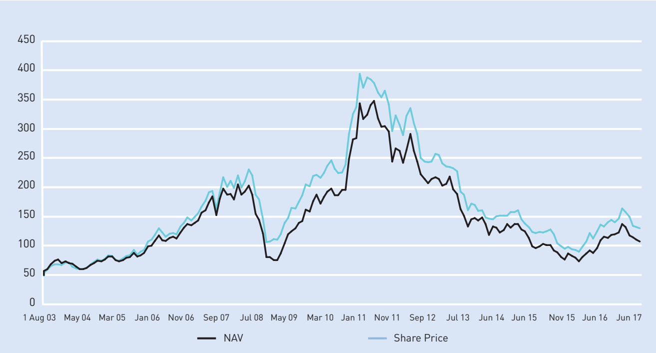
Since 2004, shareholders have been given the opportunity to vote on an Ordinary Resolution to continue the Company as an investment trust at each Annual General Meeting of the Company. Such a resolution has been proposed as Resolution 11 within the notice of Annual General Meeting on pages 49 and 50. 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 and expenditure projections, the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, and in light of the Company's strong long term investment record, the Directors are satisfied that it is appropriate to adopt the going concern basis in preparing the accounts, notwithstanding that the Company is subject to an annual continuation vote as described above.

Performance Measurement and Key Performance Indicators

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

- **Performance measured against the benchmark, relevant indices and peers**
  The Board reviews and compares, at each meeting, the performance of the portfolio as well as the net asset value and share price for the Company and its benchmark, relevant indices and peers. (see inside front cover)
- **Discount/premium to net asset value ('NAV')**
  At each Board meeting, the Board monitors the level of the Company's discount/premium to NAV. The Company publishes a NAV per share figure on a daily basis, through the official newswire of the London Stock Exchange.

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



- **Revenue earnings and dividends per share**
  The Board reviews a revenue forecast on a quarterly basis to determine the quarterly dividend.
- **Ongoing charges**
  The ongoing charges are a measure of the total expenses incurred by the Company expressed as a percentage of the average shareholders' funds over the year. The Board regularly reviews the ongoing charges and monitors all Company expenses.

Social, Community, Employee Responsibilities and Environmental Policy

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

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

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

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

The Company has no greenhouse gas emissions to report from its operations for the year ended 30 June 2017 (as per the prior year), nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013 (including those within the underlying investment portfolio).

At 30 June 2017 there were four male Directors and one female Director. The Company has no employees so is not required to report further on gender diversity.

By order of the Board
Geoff Burns
Chairman

27 September 2017

Board of Directors and Investment Manager

All of the Directors are non-executive and all, except for Mr Collins, are considered by the Board to be independent of the Investment Manager.

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

Geoffrey Douglas Charles Burns

Chairman

Length of service: 12 years
appointed a Director on 29 June 2005 and Chairman on 29 July 2005.

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

Committee membership:
Audit Committee
Management Engagement Committee
Nomination Committee

Remuneration: £27,000 per annum
(increased from £25,000 on 1 January 2017)

All other public company directorships:
Premier Energy and Water Trust plc
PEWT Securities plc
PEWT Securities 2020 plc

Shared Directorships with any other Trust Directors: None

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

Adrian John Reginald Collins

Director

Length of service: 21 years
appointed a Director on 14 December 1995 and was Chairman between 5 March 2004 and 31 March 2005.
Mr Collins is not standing for re-election at the following AGM and will cease to be a Director at the conclusion of that meeting.

Experience:
He has worked in the fund management business for over 45 years, a large part of which was at Gartmore Investment Management Limited where latterly he was managing director.
He is chairman of Liontrust Asset Management plc and is also on the boards of Bahamas Petroleum Company and CQS New City High Yield Fund Limited, and a number of other companies. These include CQS Management Limited to which he was appointed in June 2017.

Committee membership:
Nomination Committee

Remuneration: £20,000 per annum
(increased from £18,000 on 1 January 2017)

All other public company directorships:
Liontrust Asset Management plc
Bahamas Petroleum Company plc
New City High Yield Fund Limited
Tristar Resources plc

Shared Directorships with any other Trust Directors: None

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

Alun Grant Evans

Director

Length of service: 3 years
appointed a Director on 26 September 2014.

Experience:
He has worked in the investment management industry for nearly 40 years. He began his career at Capel-Cure Myers moving to Carr Sheppards Crosthwaite in 1990, where he became an executive director in 1998. He joined Cheviot in 2009 as Business Development Director, from which he retired in August 2017.

Committee membership:
Audit Committee
Management Engagement Committee
Nomination Committee

Remuneration: £20,000 per annum
(increased from £18,000 on 1 January 2017)

All other public company directorships: None

Shared Directorships with any other Trust Directors: None

Shareholding in Company: 10,540 ordinary shares

Helen Foster Green

Director and Chairman of the Audit Committee

Length of service: 2 years
appointed a Director on 1 September 2015 and appointed Chairman of the Audit Committee on 1 October 2016.

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

Committee membership:
Audit Committee
Management Engagement Committee
Nomination Committee

Remuneration: £22,000 per annum
(increased from £19,000 on 1 January 2017)

All other public company directorships:
Acorn Income Fund Limited
Aberdeen Emerging Markets Investment Company Limited
John Laing Infrastructure Fund Limited
Landore Resources Limited
UK Mortgages Limited

Shared Directorships with any other Trust Directors:
Landore Resources Limited

Shareholding in Company: 5,500 ordinary shares

Richard Öther Prickett FCA
Director

Length of service: 11 years
appointed a Director on 30 November 2006 and resigned as Chairman of the Audit Committee on 1 October 2016.

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

Committee membership:
Audit Committee
Management Engagement Committee
Nomination Committee

Remuneration: £20,000 per annum
(increased from £19,000 on 1 January 2017)

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

Shared Directorships with any other Trust Directors:
Landore Resources Limited

Shareholding in Company: 39,000 ordinary shares

Investment Manager

The Company appointed New City Investment Managers (''NCIM'') as its Investment Manager with effect from 1 April 2005. On 1 October 2007, NCIM joined the CQS Group, a global diversified asset manager running multiple strategies with, as at 31 August 2017, US$13.7 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 CQS (UK) LLP trading as NCIM.

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

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

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

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

Alternative Investment Fund Managers Directive (AIFMD)

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

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

Further AIFMD disclosures are shown on page 52.

Directors' Report

The Directors present their Annual Report and the audited financial statements for the year ended 30 June 2017.

Results and Dividends

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

Principal Activity and Status

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

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

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

Directors

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

As explained in more detail under Corporate Governance on pages 20 to 21, the Board has agreed that all Directors will retire annually. Mr G D C Burns, Mr R O Prickett, Mr A G Evans, and Mrs H Green will retire at the Annual General Meeting and, being eligible, offer themselves for re-election. Mr A J R Collins has said that he will not stand for re-election and will therefore retire from the Board at the conclusion of the Annual General Meeting. Two new Directors, Ms C Cable and Mr C M Casey, are to be appointed to the Board with effect from 1 October 2017. Ms Cable and Mr Casey will stand for election by shareholders at the Annual General Meeting as proposed in Resolutions 9 and 10.

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

Capital Structure

As at 30 June 2017 there were 66,882,974 ordinary shares of 25 pence each in issue. The ordinary shares give shareholders the entitlement to all of the capital growth in the Company's net assets and to all the Company's income that is resolved to be distributed after providing for payment of interest to holders of the 3.5% Convertible Unsecured Loan Stock 2018.

Convertible Unsecured Loan Stock 2018

On 26 September 2011 the Company issued £40,000,000 nominal of 3.5% Convertible Unsecured Loan Stock 2018 ('CULS'). As at 30 June 2016, the Company had £34,553,872 nominal of CULS in issue. On 14 October 2016, the Company issued 5,274 ordinary shares of 25 pence each in connection with the exercise of conversion rights by holders of £19,896 nominal of the Company's CULS. On 13 April 2017, the Company issued 932 ordinary shares of 25 pence each in connection with the exercise of conversion rights by holders of £3,518 nominal of the Company's CULS. As at 30 June 2017 £34,530,458 nominal of the Company's CULS remains in issue.

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

Substantial Interests in Share Capital

At 31 August 2017, the only persons known to the Company who, directly or indirectly, were interested in 3 per cent or more of the Company's issued share capital were as follows:

Ordinary shares	Number held	% held
Hargreaves Lansdown	10,448,230	15.6
Alliance Trust Savings	6,613,893	9.9
Charles Stanley	4,381,956	6.6
Barclays	3,625,630	5.4
AJ Bell	3,197,097	4.8
Investec Wealth & Investment	3,173,348	4.7
TD Waterhouse	2,695,765	4.0
Self Trade	2,282,575	3.4
HSDL	2,175,561	3.3
West Yorkshire PF	2,063,411	3.1

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

Management and Management Fees

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

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

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

The administration of the Company has been delegated to Maitland Administration Services (Scotland) Limited ("Maitland") formally known as R&H Fund Services Limited. A summary of the contract between the Company and Maitland is given in note 4 to the financial statements.

Financial Statements

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

Annual General Meeting

The Notice of the Annual General Meeting is contained on pages 49 and 50.

Directors' Remuneration Policy and Report

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

Induction and Training

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

Continuation Vote

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

Directors' Authority to Allot Shares

The Directors are seeking authority to allot shares. Resolution 13 will, if passed, authorise the Directors to allot new shares up to an aggregate nominal amount of £1,655,353 being 9.99 per cent of the total issued shares as at 27 September 2017.

Resolution 14, 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 £834,365 (being 4.99 per cent of the total of issued shares as at 30 September 2017). Resolution 13 also authorises the sale of treasury shares for cash without offering such shares first to all existing shareholders. These authorities will continue in effect until the conclusion of the Annual General Meeting in 2018. 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 15, 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 2018.

Notice of Meeting

Resolution 16, which is a Special Resolution, will be proposed to authorise the Directors to call general meetings of the Company (other than Annual General Meetings), on 14 clear days' notice as permitted by the Companies Act 2006 and as amended by the Companies (Shareholders' Rights) Regulations 2009. The Company will also need to meet the Companies Act 2006 requirements for electronic voting before it may call a general meeting on 14 clear days' notice. The Directors confirm that, in the event that a general meeting is called, they will give as much notice as is practicable and will only utilise the authority granted by Resolution 16 in limited and time sensitive circumstances.

Statement Regarding Annual Report and Accounts

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

Disclosure of Information to the Auditor

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

Independent Auditors

KPMG LLP resigned as auditor to the Company in February 2017, in the interest of good governance, following an audit tender process instigated by the Board. BDO LLP were appointed as auditor to the Company in May 2017.

Directors and Officers Insurance

The Company has a Directors and Officers insurance policy in respect of liabilities that may attach to them in the capacity as Directors of the Company. This covers any liabilities that may arise to a third party for negligence, default or breach of trust or duty. This policy has been in force throughout the year under review and remains in place as at the date of this report. For more information see note 4.

Risks

The principal risks, both perceived and observed, together with their mitigations are set out in the Strategic Report on pages 11 and 12 and also note 16.

Dividend Policy

Subject to market conditions and the Company's performance, financial position and financial outlook, it is the Directors' intention to pay an attractive level of dividend income to Shareholders on a quarterly basis. The Company intends to continue to pay all dividends as interim dividends. A resolution to approve this dividend policy will be proposed at the Annual General Meeting ('AGM'). Accordingly, the Directors are proposing Resolution 4, which will be proposed as an Ordinary Resolution.

Recommendation

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

By Order of the Board

Geoff Burns
Chairman

27 September 2017

Statement of Directors' Responsibilities

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

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

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Statement of Corporate Governance that comply with that law and those regulations. The financial statements are published on www.ncim.co.uk which is a website maintained by the Company's Investment Manager. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm that to the best of our knowledge:

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

On behalf of the Board

Geoff Burns
Chairman

27 September 2017

Statement of Corporate Governance

Introduction

The UK Listing Authority requires all listed companies to describe how they have complied with the principles of the UK Corporate Governance Code published in April 2016 (the "Governance Code"), which is available on the Financial Reporting Council's website: www.frc.org.uk. The Governance Code covers in particular the annual re-appointment of Directors, Board diversity, external evaluation, the Board's responsibilities in relation to risk, and a clear explanation of business model and strategy.

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

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

Application of the Principles of the Codes

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

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

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

The Board

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

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

During the year ended 30 June 2017 the Board met 4 times. In addition, there were 2 Audit Committee meetings, 1 Management Engagement Committee meeting, 2 Nomination Committee meetings and 7 other ad hoc Committee meetings (to approve dividends and the Half Yearly and Annual Reports). Between meetings the Board maintains regular contact with the Investment Manager.

Directors have attended Board and Committee meetings during the year ended 30 June 2017 as follows (with their eligibility to attend the relevant meeting in brackets):

	Board meetings	Nomination Committee meetings	Management Engagement Committee meetings	Audit Committee meetings
G D C Burns (Chairman)	4 (4)	2 (2)	1 (1)	2 (2)
A J R Collins	4 (4)	2 (2)	– (–)	– (–)
A G Evans	3 (4)	2 (2)	1 (1)	2 (2)
H F Green	4 (4)	2 (2)	1 (1)	2 (2)
R Ö Prickett	4 (4)	2 (2)	1 (1)	2 (2)

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

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

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

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

The Board has reviewed the Company's internal control, principal risks and uncertainties. These are described in the Strategic Report on pages 11 and 12.

Management Engagement Committee

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

Nomination Committee

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

Stewardship Code

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

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

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

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

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

Exercise of Voting Powers

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

Relations with Shareholders

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

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

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

By Order of the Board

Maitland Administration Services (Scotland) Limited
Secretaries

27 September 2017

Report of the Audit Committee

Composition of the Audit Committee

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

Role of the Audit Committee

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

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

Annual Report and Financial Statements

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

Auditor

As part of its review of the scope and results of the audit, during the year the Audit Committee considered and approved BDO's plan for the audit of the financial statements for the year ended 30 June 2017. At the conclusion of the audit BDO did not highlight any issues to the Audit Committee which would cause it to qualify its audit report nor did it highlight any fundamental internal control weaknesses. BDO issued an unqualified audit report which is included on pages 26 to 29.

It has been agreed that all non-audit work to be carried out by BDO must be approved in advance by the Audit Committee and any special projects must also be approved in advance. KPMG provided tax services for the Company during the year.

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

Following professional guidelines, the audit partner rotates after five years. The audit partner is in her first year of appointment.

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

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

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

Internal Controls

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

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

- financial;
- operational; and
- compliance.

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

- Maitland Administration Services (Scotland) Limited ("Maitland") as Company Secretary and Administrator together with the Investment Manager prepares forecasts and management accounts which allow the Board to assess the Company's activities and review its performance;
- the Board and Investment Manager have agreed clearly defined investment criteria, specified levels of authority and exposure limits. Reports on these issues, including performance statistics and investment valuations, are regularly submitted to the Board and there are meetings with the Investment Manager as appropriate;
- as a matter of course the Investment Manager's compliance department continually reviews the Investment Manager's operations and reports to the Board on a quarterly basis;
- written agreements are in place which specifically define the roles and responsibilities of the Investment Manager, Administrator and other third party service providers;
- the Board has considered the need for an internal audit function but, because of the compliance and internal control systems in place at the Investment Manager and the Administrator, has decided to place reliance on the Investment Manager's and the Administrator's systems and their internal audit procedures.

The Audit Committee has established a set of ongoing processes designed to meet the particular needs of the Company in managing the risks to which it is exposed.

The process is one whereby the Investment Manager has identified the key risks to which the Company is exposed, and recorded them on a risk matrix together with the controls employed to mitigate these risks. A residual risk rating has been applied to each risk. The Audit Committee is responsible for reviewing the risk matrix and associated controls before recommending to the Board for consideration and approval, challenging the Investment Manager's assumptions to ensure a robust internal risk management process.

The Audit Committee formally reviewed the updated risk matrix during the year and will continue to do so on an annual basis. By their nature, these procedures provide a reasonable, but not absolute, assurance against material misstatement or loss. Regular reports will be provided to the Audit Committee highlighting material changes to risk ratings.

During the year, the Audit Committee also discussed and reviewed the internal controls frameworks in place at the Investment Manager and the Administrator in depth. Discussions focused on three lines of defence: assurances at operational level; internal oversight; and independent objective assurance. The Audit Committee concluded that these frameworks were appropriate for the identification, assessment, management and monitoring of financial and regulatory risks, with particular regard to the protection of the interests of the Company's shareholders.

At its September meeting, the Audit Committee carried out an annual assessment of internal controls for the year ended 30 June 2017 by considering documentation from the Investment Manager and the Administrator, including the internal audit and compliance functions and taking account of events since 30 June 2017. The results of the assessment were then reported to the Board at the following Board meeting.

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

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

Helen Green
Chairman of the Audit Committee

27 September 2017

Directors' Remuneration Report

Remuneration Committee

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

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

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

Directors' Remuneration Policy

The Board's policy is that the remuneration of Directors should reflect the experience of the Board as a whole, be fair and comparable to that of other relevant investment trusts that are similar in size and have similar investment objectives and structures. Furthermore, the level of remuneration should be sufficient to attract and retain the Directors needed to oversee properly the Company and to reflect the specific circumstances of the Company, the duties and responsibilities of the Directors and the value and amount of time committed to the Company's affairs. It is intended that this policy will continue for the year ending 30 June 2018 and subsequent years. Accordingly, the Directors are proposing Resolution 2, which will be proposed as an Ordinary Resolution.

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 2017 was £104,000. Non-executive Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits.

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

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

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

Mr A J R Collins has indicated that he will not stand for re-election and will therefore retire from The Board at the conclusion of the Annual General Meeting.

Director	Date of Appointment	Due date for Re-election
G D C Burns	29 June 2005	AGM 2017
A J R Collins	14 December 1995	n/a
A G Evans	26 September 2014	AGM 2017
H F Green	1 September 2015	AGM 2017
R Ö Prickett	30 November 2006	AGM 2017

Annual Report on Directors' Remuneration

Directors' Emoluments (audited)

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

	2017 £'000	2016 £'000
G D C Burns*	26	25
H F Green***†††	20.5	15
R Ö Prickett**††	19.5	20
A J R Collins†	19	18
A G Evans	19	18
B M L Coulson****	–	5
Totals	104	101

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

* Chairman.
** Mr Prickett resigned as Chairman of the Audit Committee on 30 September 2016.
*** Mrs Green was appointed as Chairman of the Audit Committee on 30 September 2016.
**** Mr Coulson retired from the Board on the 26 November 2015.
† Fees paid to Fincorp International Ltd.
†† Fees paid to European Sales Company Ltd.
††† Fees paid to Saffery Champness Management International Limited.

Relative Importance of Spend on Pay

The table below sets,out, in respect of the financial year ended 30 June 2017 and the preceding financial year:

a) the remuneration paid to the Directors; and

b) the distribution made to shareholders by way of dividend.

	Year ended 30 June 2017	Year ended 30 June 2016	% Change
Total remuneration	£104,000	£101,000	3.0
Dividend	£3,745,000	£3,745,000	Nil

Directors' Interests (audited)

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

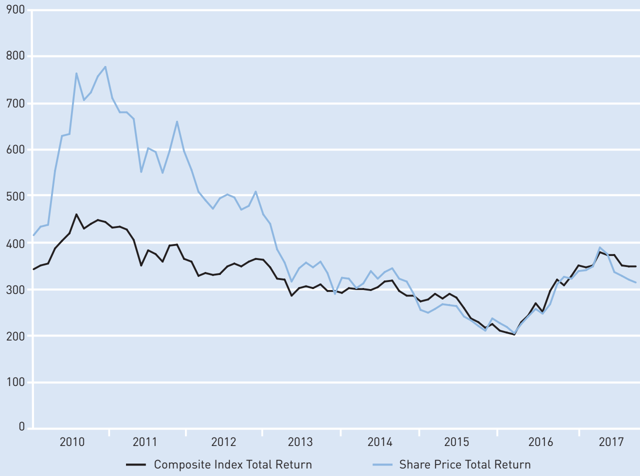
The interests (all of which were beneficial) of the Directors who held office at the year-end in the shares of the Company were: There has been no change in the ordinary share or CULS holdings of the Directors between 30 June 2017 and 27 September 2017.

	Ordinary shares		CULS	
	2017	2016	2017	2016
G D C Burns	110,000	110,000	20,192	20,192
A J R Collins	100,000	100,000	22,434	22,434
R Ö Prickett	39,000	39,000	–	–
A G Evans	10,540	10,540	–	–
H F Green	5,500	5,500	–	–

Company Performance

The Board is responsible for the Company's investment strategy and performance, although the management of the Company's investment portfolio is delegated to the Investment Manager through the investment management agreement, as referred to in the Directors' Report on page 16. The graph opposite compares for the seven years to 30 June 2017 the share price total return (assuming all dividends are reinvested) to ordinary shareholders compared to the total shareholder return on a notional investment made up of shares of the same kinds and number as those by reference to which a composite index, weighted as to two-thirds Euromoney Global Mining Index (sterling adjusted) and one-third Credit Suisse High Yield Index (sterling adjusted), is calculated. This composite index was chosen as it represents a comparable mix of mining and resource equities and fixed interest securities.

Share Price Total Return and the Composite Index Performance Graph



Voting at Annual General Meeting

At the Company's last Annual General Meeting, held on 29 November 2016, shareholders approved the Directors' Remuneration Policy and the Directors' Remuneration Report in respect of the year ended 30 June 2016. 81.2% of votes were in favour of the resolutions and 0.8% were against.

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

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

Approval

The Directors' Remuneration Report on pages 24 and 25 was approved by the Board of Directors and signed on its behalf on 27 September 2017.

Geoff Burns
Chairman

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

Opinion

We have audited the financial statements of City Natural Resources High Yield Trust Plc ("the Company") for the year ended 30 June 2017 which comprise the Income Statement, Balance Sheet, Statement of changes in Equity, Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Accounting Standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:to:

- the disclosures in the annual report set out on pages 11 and 12 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 12 in the annual report that they have carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on page 12 in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 12 in the annual report as to how they have assessed the prospects of the company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

An overview of the scope of our audit

Our audit approach was developed by obtaining an understanding of the Company's activities, the key functions undertaken by the Board and the overall control environment. Based on this understanding we assessed those aspects of the Company's transactions and balances which were most likely to give rise to a material misstatement.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><th>Risk area</th><th>Audit response</th></tr>
<tr><td>
Valuation of Investments

We consider the valuation of investments to be the most significant audit area as it is the most significant balance in the financial statements and underpins the principal activity of the entity. Furthermore, there is an element of subjectivity in the valuation of the investments.

The investment manager fee is based on the value of the Company's gross assets. As the investment manager is responsible for valuing the investments there is a potential risk of overstatement.
</td><td>
We responded to this risk by testing the valuation and existence of 100% of the portfolio of investments. We performed the following procedures:

In respect of quoted investment valuations (£88.5m/78.4% of portfolio) we have:

Confirmed that the year-end price has been agreed to externally quoted prices
Considered contra indicators of value to suggest that the yearend price is not the most appropriate indication of fair value such as potential liquidity issues
Considered the volume of shares held and whether disposal could flood the market
Confirmed the investment holdings to independently received third party confirmation from the custodian

In respect of the fixed income and convertible investment valuations (£23.3m/20.6% of the portfolio) we have:

Confirmed that the year-end price has been agreed to externally obtained vendor prices
Considered contra indicators of value to suggest that the yearend price is not the most appropriate indication of fair value such as potential liquidity issues
Considered any non-performance of the investment and/or defaults on interest payments
Confirmed the investment holdings to independently received third party confirmation from the custodian

In respect of derivative investments (£239k/<1% of the portfolio) we have:

Considered the appropriateness of the valuation methodology applied by the investment manager
Calculated the value of the derivative using a derivative pricing model and compared this price to the investment portfolio
Considered the underlying stock and whether there were any contra indicators that could impact the fair value of the warrant
Considered the duration of the warrant and time to expiry
Confirmed the investment holdings to independently received third party confirmation from the custodian

In respect of unquoted investments (£870k/<1% of the portfolio) we have:

Considered the rationale for investments valued at nil and performed independent research to identify any indications of undervaluation
Agreed the valuations where relevant through to a third party valuation report or third party data
Considered whether the valuation methodology is the most appropriate in the circumstances under the International Private Equity and Venture Capital Valuation ("IPEV") Guidelines
Re-performed the calculation of the investment valuations
Challenged the investment manager on the significant assumptions made
Confirmed the investment holdings to independently received third party confirmation from the custodian

We also considered the completeness and accuracy of investment related disclosures.

Based on our procedures performed we concluded that the valuation of the portfolio of investments was considered to be appropriate.
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Independent Auditor's Report to the Members of City Natural Resources High Yield Trust plc Only

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

Materiality for the financial statements as a whole was £1,129,000, which has been based on 1% of the value of the portfolio of investments. In setting materiality, we have had regard to the nature and disposition of the investment portfolio.

Under ISA (UK) 320, an auditor is required to consider whether there are one or more particular classes of transactions or account balances, for which misstatements of lesser amounts than materiality could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. We have noted that the company's on-going costs and net realised returns could influence users of the financial statements and we have therefore applied a lower specific materiality level of £106,000 to investment income, costs and other relevant transactions and balances that drive the revenue return to shareholders. This has been based on 10% of profit before tax, excluding unrealised valuation movements.

We agreed with the Audit Committee that we would report to the committee all individual audit differences in excess of £10,000.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Other information also excludes the Report from CQS (UK) LLP Relating to Matters under the Alternative Investment Fund Managers' Directive on page 52 to 53. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, in respect of the Strategic Report and Directors' Reports and Governance Reports included on pages 2 to 25 and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable set out on page 18 – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit committee reporting set out on page 22 – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- Directors' statement of compliance with the UK Corporate Governance Code set out on page 19 – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions 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.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements;
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook made by the Financial Conduct Authority (the FCA Rules), is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
- information about the company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in:

- the strategic report or the directors' report; or
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 of the FCA Rules.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us 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 are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.; or
- a corporate governance statement has not been prepared by the company.

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 19, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by The Board of Directors on 23 May 2017 to audit the financial statements for the year ending 30 June 2017 and subsequent financial periods.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting our audit.

No non-audit services were provided by the firm to the company in the year.

Our audit opinion is consistent with the additional report to the audit committee.

Vanessa Bradley (Senior Statutory Auditor)

For and on behalf of BDO LLP, statutory auditor

London, UK

27 September 2017

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Income Statement

	Notes	Year ended 30 June 2017 Revenue £'000	Capital £'000	Total £'000	Year ended 30 June 2016 Revenue £'000	Capital £'000	Total £'000
Gains on investments	9	–	6,438	6,438	–	6,814	6,814
Exchange gains		–	18	18	–	31	31
Income	2	4,892	–	4,892	4,837	–	4,837
Investment management fee	3	(293)	(878)	(1,171)	(214)	(642)	(856)
Other expenses	4	(521)	–	(521)	(455)	–	(455)
Net return before finance costs and taxation		**4,078**	**5,578**	**9,656**	**4,168**	**6,203**	**10,371**
Interest payable and similar charges	5	(305)	(1,729)	(2,034)	(318)	(1,769)	(2,087)
Net return on ordinary activities before taxation		**3,773**	**3,849**	**7,622**	**3,850**	**4,434**	**8,284**
Tax on ordinary activities	6	(378)	211	(167)	(451)	195	(256)
Net return attributable to equity shareholders		**3,395**	**4,060**	**7,455**	**3,399**	**4,629**	**8,028**
Return per ordinary share	8	**5.08p**	**6.07p**	**11.15p**	**5.08p**	**6.92p**	**12.00p**

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 other comprehensive income is not presented as all gains and losses of the Company have been reflected in the above Income Statement.
The accompanying notes are an integral part of the financial statements.

Balance Sheet

	Notes	As at 30 June 2017 £'000	As at 30 June 2016 £'000
Fixed assets			
Investments	9	112,902	113,525
Current assets			
Debtors	10	3,027	576
Cash at bank and on deposit		7,371	4,738
		10,398	**5,314**
Creditors: amounts falling due within one year	11	**(727)**	**(627)**
Net current assets		**9,671**	**4,687**
3.5% Convertible Unsecured Loan Stock 2018	12	**(33,824)**	**(33,025)**
Net assets		**88,749**	**85,187**
Capital and reserves			
Called-up share capital	13	16,721	16,719
Special distributable reserve		30,386	30,386
Share premium		4,832	4,810
Equity component of 3.5% Convertible Unsecured Loan Stock 2018	12	488	1,213
Capital reserve		30,347	25,734
Revenue reserve		5,975	6,325
Equity shareholders' funds		**88,749**	**85,187**
Net asset value per share	14	**132.69p**	**127.38p**

The financial statements on pages 30 to 47 were approved by the Board of Directors and authorised for issue on 27 September 2017 and were signed on its behalf by:

Geoff Burns
Chairman

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

Statement of Changes in Equity

for the year to 30 June 2017

	Share capital £'000	Share premium account £'000	Special distributable reserve £'000	CULS Equity Component £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance at 30 June 2016	16,719	4,810	30,386	1,213	25,734	6,325	85,187
CULS conversion	2	22	–	(725)	724	–	23
Return on ordinary activities after taxation	–	–	–	–	4,060	3,395	7,455
Effective yield	–	–	–	–	(171)	–	(171)
Dividends paid (see note 7)	–	–	–	–	–	(3,745)	(3,745)
Balance at 30 June 2017	16,721	4,832	30,386	488	30,347	5,975	88,749

For the year ended 30 June 2016

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

The revenue reserve represents the amount of the Company's reserves distributable by way of dividend.

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

Cash Flow Statement

	Notes	Year ended 30 June 2017 £'000	Year ended 30 June 2016 £'000
Operating activities			
Investment income received		4,155	4,536
Deposit interest received		4	2
Other income received		6	65
Investment management fees paid		(1,167)	(853)
Other cash payments		(519)	(473)
Net cash inflow from operating activities	15	2,479	3,277
Investing activities			
Purchases of investments		(65,630)	(113,165)
Disposals of investments		70,722	113,696
Net cash inflow from investing activities		5,092	531
Financing activities			
Equity dividends paid		(3,745)	(3,745)
Interest on bank facility/overdraft		(2)	(2)
Interest on 3.5% Convertible Unsecured Loan Stock 2018		(1,209)	(1,315)
Buyback of CULS		–	(5,372)
Net cash outflow from financing activities		(4,956)	(10,434)
Increase/(decrease) in net cash		**2,615**	**(6,626)**
Reconciliation of net cash flow to movement in net cash			
Increase/(decrease) in cash in the year		2,615	(6,626)
Exchange gains		18	31
Movement in net cash in the year		**2,633**	**(6,595)**
Opening net cash at 1 July		4,738	11,333
Closing net cash at 30 June		**7,371**	**4,738**

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

Notes to the Financial Statements

for the year to 30 June 2017

1 Accounting Policies

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

(a) Basis of Accounting

The financial statements have been prepared in accordance with Financial Reporting Standard 102 and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' 2014 ('SORP'). They have also been prepared on a going concern basis and on the assumption that approval as an investment trust will continue to be granted.

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

The Company has early adopted Amendments to FRS 102 – Fair value hierarchy disclosures issued by the Financial Reporting Council in March 2016.

Presentation of the Income Statement

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

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

Critical accounting estimates and judgements

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

(b) Financial assets

All financial assets are initially recognised at fair value net of transactions costs incurred. All financial assets are recorded at the date on which the Company became party to the contractual requirements of the financial asset.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Foreign currencies

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the Consolidated Statement of Comprehensive Income.

(c) Financial liabilities

All financial liabilities are initially recognised at fair value net of transaction costs incurred. All financial liabilities are recorded on the date on which the Company becomes party to the contractual requirements of the financial liability.

(d) Fixed asset investments

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

(e) 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.

(f) 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.

(g) 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.

(h) 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.

(i) 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.

(j) 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 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.

(k) Reserves

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

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

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

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

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

2 Income

	2017 £'000	2016 £'000
Income from investments*		
UK dividend income	463	525
UK unfranked investment income	669	847
Preference share income	472	493
Overseas dividend income	1,458	1,461
Overseas fixed interest	1,820	1,443
	4,882	4,769
Other income†		
Deposit interest	4	3
Other income	6	65
	10	68
Total income	4,892	4,837
Total income comprises:		
Dividends	2,393	2,653
Fixed interest securities	2,489	2,116
Deposit interest	4	3
Other income	6	65
	4,892	4,837

*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

	2017 Revenue £'000	2017 Capital £'000	2017 Total £'000	2016 Revenue £'000	2016 Capital £'000	2016 Total £'000
Investment management fee	293	878	1,171	214	642	856

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

The balance due to CQS for management fees at the year end was £90,000 (2016: £86,000).

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

4 Other Expenses (including irrecoverable VAT)

	2017 Revenue £'000	2017 Capital £'000	2017 Total £'000	2016 Revenue £'000	2016 Capital £'000	2016 Total £'000
Secretarial and administration fees	91	–	91	82	–	82
Directors' fees	104	–	104	101	–	101
Auditor remuneration for statutory audit	19	–	19	25	–	25
Tax advisor remuneration for tax services	9	–	9	8	–	8
Directors' and Officers' liability insurance	11	–	11	11	–	11
Other	287	–	287	228	–	228
	521	–	521	455	–	455

The Company has an agreement with Maitland Administration Services (Scotland) Limited ("Maitland") for the provision of secretarial and administration services. During the year the total fees paid and payable were £91,000 (2016: £82,000). The balance due to Maitland for secretarial services at the year end was £Nil (2016: £Nil).

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

The Company does not have any employees.

The prior year audit fee was payable to KPMG, the previous auditor.

5 Interest Payable and Similar Charges

	2017 Revenue £'000	2017 Capital £'000	2017 Total £'000	2016 Revenue £'000	2016 Capital £'000	2016 Total £'000
Interest on 3.5% Convertible Unsecured Loan Stock 2018	303	908	1,211	316	948	1,264
Notional interest on 3.5% Convertible Unsecured Loan Stock 2018	–	724	724	–	724	724
Amortisation of issue expenses	–	97	97	–	97	97
Bank overdraft	2	–	2	2	–	2
	305	1,729	2,034	318	1,769	2,087

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

6 Tax on Ordinary Activities

	2017 Revenue £'000	2017 Capital £'000	2017 Total £'000	2016 Revenue £'000	2016 Capital £'000	2016 Total £'000
Corporation tax	211	(211)	–	195	(195)	–
Overseas taxation	167	–	167	256	–	256
Total tax charge/(credit)	378	(211)	167	451	(195)	256

Reconciliation of Tax Charge

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

	2017 Total £'000	2016 Total £'000
Return on ordinary activities before taxation	7,622	8,284
Corporation tax at standard rate of 19.75% (2016: 20.00%)	1,505	1,657
Effects of:		
Non taxable income	(534)	(575)
Non taxable losses	(1,271)	(1,363)
Overseas withholding tax	167	256
Excess management expenses	304	287
Non deductible exchange gains	(4)	(6)
Current year tax charge	167	256

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 2017 the Company had surplus management expenses of £5,845,000 (2016: £4,306,000) on which no deferred tax asset has been recognised.

7 Dividends

	2017 Revenue £'000	2016 Revenue £'000
Amounts recognised as distributions to equity holders in the year:		
– Fourth interim dividend for the year ended 30 June 2016 of 3.02p (2015 – 3.02p) per ordinary share	**2,020**	2,020
– First interim dividend for the year ended 30 June 2017 of 0.86p (2016 – 0.86p) per ordinary share	**575**	575
– Second interim dividend for the year ended 30 June 2017 of 0.86p (2016 – 0.86p) per ordinary share	**575**	575
– Third interim dividend for the year ended 30 June 2017 of 0.86p (2016 – 0.86p) per ordinary share	**575**	575
	3,745	3,745
Amounts relating to the year but not paid at the year end:		
– Fourth interim dividend for the year ended 30 June 2017 of 3.02p (2016 – 3.02p) per ordinary share	**2,020**	2,020

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

8 Return per Ordinary Share

Return per ordinary share attributable to shareholders reflects the overall performance of the Company in the year.

	Year ended 30 June 2017 £'000	Year ended 30 June 2016 £'000
Revenue return	3,395	3,399
Capital return	4,060	4,629
Total return	7,455	8,028
	Number	Number
Weighted average ordinary shares in issue	**66,880,724**	66,875,991
Revenue return per ordinary share	5.08	5.08
Capital return per ordinary share	6.07	6.92
Total return per ordinary share	11.15	12.00

For the years ended 30 June 2017 and 30 June 2016 there was no dilution to the revenue return per ordinary share. Additionally, for the year ended 30 June 2017 there was no dilution to the capital return per ordinary share.

9 Investments

	2017 £'000	2016 £'000
Equity shares	**73,254**	74,418
Fixed income securities	**22,649**	17,915
Preference shares	**9,295**	8,658
Treasury stock	**5,996**	11,235
Placings	**805**	1,131
Convertible securities	**664**	163
Warrants	**239**	5
	112,902	113,525

Included above are unquoted investments of value £870,000.

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

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

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

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

	Level 1 Listed in UK £'000	Level 1 Listed overseas £'000	Level 2** £'000	Level 3 £'000	2017 Total £'000	2016 Total £'000
Opening book cost*	36,075	54,806	27,620	21,079	139,580	151,415
Opening fair value adjustment*	1,172	(1,115)	(9,015)	(17,097)	(26,055)	(44,186)
Opening valuation*	37,247	53,691	18,605	3,982	113,525	107,229
Purchases at cost	19,234	37,552	8,863	–	65,649	112,601
Conversions/transfers	(1,024)	4,378	(2,322)	(1,032)	–	–
Sales – proceeds	(34,903)	(33,006)	(4,106)	(695)	(72,710)	(113,119)
– gains/(losses)	1,887	869	(3,735)	(1,190)	(2,169)	(11,317)
Effective yield	(11)	(2)	(69)	–	(82)	(171)
Increase in fair value adjustment	1,736	777	6,371	(195)	8,689	18,302
Closing valuation	24,166	64,259	23,607	870	112,902	113,525
Closing book cost	21,269	64,599	26,320	18,162	130,350	139,580
Closing fair value adjustment	2,897	(340)	(2,713)	(17,292)	(17,448)	(26,055)
Closing valuation	24,166	64,259	23,607	870	112,902	113,525

*The opening figures reflecting the portfolio as at 30 June 2016 have been revised to more accurately reflect trading volume data which for the corporate bond portfolio is limited with security prices commonly based on consensus broker quotes rather than recent trading activity.

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

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

Gains/(losses) on investments	**2017 £'000**	**2016 £'000**
Realised losses on sale	**(2,169)**	(11,317)
Movement in fair value	**8,689**	18,302
Effective yield	**(82)**	(171)
Gains on investments	**6,438**	6,814

During the year the Company incurred transaction costs on the purchases of £32,682 (2016: £64,556) and transaction costs on sales of £53,941 (2016: £69,849).

10 Debtors

	2017 £'000	2016 £'000
Amounts due from brokers	**2,098**	108
Prepayments and accrued income	**918**	445
VAT recoverable	**11**	23
	3,027	576

11 Creditors: Amounts Falling Due Within One Year

	2017 £'000	2016 £'000
Amounts due to brokers	**123**	14
Corporation tax	**163**	163
Other creditors	**141**	152
Interest on 3.5% Convertible Unsecured Loan Stock 2018	**300**	298
	727	627

Included within other creditors is £90,000 (2016: £86,000) due to CQS in respect of management fees.

12 3.5% Convertible Unsecured Loan Stock 2018

	Nominal number of CULS £'000	Liability component £'000	Equity component £'000
Balance at 30 June 2016	34,554	33,025	1,213
Amortisation of discount on issue and issue expenses	–	97	–
Transfer of CULS liability discount amortisation	–	724	(724)
Conversion during the year	(24)	(22)	(1)
Balance at 30 June 2017	**34,530**	**33,824**	**488**
Balance at 30 June 2015	39,930	37,270	2,248
Amortisation of discount on issue and issue expenses	–	97	–
Transfer of CULS liability discount amortisation	–	724	(724)
Conversion during the year	(4)	(3)	–
Buyback of CULS	(5,372)	(5,063)	(311)
Balance at 30 June 2016	**34,554**	**33,025**	**1,213**

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

On 14 October 2016, the Company issued 5,274 ordinary shares in connection with the exercise of £19,896 nominal of the Company's CULS. On 13 April 2017, the Company issued 932 ordinary shares in connection with the exercise of £3,518 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. 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 2017, there was £34,530,458 nominal of CULS in issue, which are due for repayment on 26 September 2018.

13 Share Capital

	2017 Shares	2017 £'000
Authorised at 30 June		
Ordinary shares of 25p each	100,000,000	25,000
Allotted, called up and fully-paid		
Total issued ordinary shares of 25p each as at 1 July 2016	66,876,768	16,719
Conversion of 3.5% Convertible Unsecured Loan Stock 2018		
– Issue of 5,274 ordinary shares on 14 October 2016	5,274	1
– Issue of 932 ordinary shares on 13 April 2017	932	1
Total issued ordinary shares of 25p each as at 30 June 2017	66,882,974	16,721

On 14 October 2016, the Company issued 5,274 ordinary shares in connection with the exercise of £19,896 nominal of the Company's CULS. On 13 April 2017, the Company issued 932 ordinary shares in connection with the exercise of £3,518 nominal of the Company's CULS.

Capital management policies and procedures

The Company's capital management objectives are:

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

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

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

14 Net Asset Value per Ordinary Share

The net asset value per ordinary share is based on net assets of £88.7 million (2016: £85.2 million) and on 66,882,974 (2016: 66,876,768) ordinary shares, being the number of ordinary shares in issue at the year end.

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

	2017 £'000	2016 £'000
Net return before finance costs and taxation	9,657	10,371
Gains on investments	(6,438)	(6,814)
Effective yield	(82)	(171)
Withholding tax suffered	(167)	(256)
(Increase)/decrease in accrued income	(478)	192
Decrease/(increase) in other debtors	16	(13)
Decrease in other creditors	(11)	(1)
Exchange gains	(18)	(31)
Net cash inflow from operating activities	2,479	3,277

16 Financial Instruments

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

Listed fixed asset investments held (see note 9) are valued at fair value. For listed securities this is either bid price or the last traded price depending on the convention of the exchange on which the investment is listed. Unquoted investments are valued by the Directors on the basis of all the information available to them at the time of valuation. The fair value of all other financial assets and liabilities is represented by their carrying value in the Balance Sheet shown on page 31. The fair value of the 3.5% Convertible Unsecured Loan Stock 2018 is not materially different from its carrying value in the Balance Sheet.

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

(i) market price risk, being the risk that the value of investment holdings will fluctuate as a result of changes in market prices caused by factors other than interest rate or currency rate movements;

(ii) interest rate risk, being the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates;

(iii) foreign currency risk, being the risk that the value of investment holdings, investment purchases, investment sales and income will fluctuate because of movements in currency rates;

(iv) credit risk, being the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company; and

(v) liquidity risk, being the risk that the bank may demand re-payment of a loan or that the Company may not be able to quickly liquidate its investments.

The Company held the following categories of financial instruments as at 30 June 2017:

	2017 £'000	2016 £'000
Financial instruments		
Investment portfolio	**112,902**	113,525
Cash at bank and on deposit	**7,371**	4,738
Amounts due from brokers	**2,098**	108
Accrued income	**905**	427
Other debtors	**24**	41
Financial liabilities		
3.5% Convertible Unsecured Loan Stock 2018	**33,824**	33,025
Amounts due to brokers	**123**	14
CULS interest due	**300**	298
Other creditors	**304**	315

Market price risk

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

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

If the investment portfolio valuation fell by 10 per cent at 30 June 2017, the impact on the profit or loss and the net asset value would have been negative £11.3 million (2016: negative £11.4 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.

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

Floating rate

When the Company retains cash balances they are held in floating rate deposit accounts. The benchmark rate which determines the interest payments received on cash balances is the bank base rate for the relevant currency for each deposit.

Financial liabilities

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

If the bank base rate had increased by 0.5 per cent, the impact on the profit or loss would have been a loss of £2,000 (2016: £2,000). If the bank base rate had decreased by 0.5 per cent, the impact on the profit or loss would have been equal and opposite. The calculations are based on borrowings as at the respective balance sheet dates and are not representative of the year as a whole.

Fixed rate

The Company holds fixed interest investments and has fixed interest liabilities. The fixed interest liabilities are disclosed in note 12.

	2017 £'000	2017 Weighted average interest rate (%)*	2017 Weighted average period for which the rate is fixed (years)	2016 £'000	2016 Weighted average interest rate(%)*	2016 Weighted average period for which the rate is fixed (years)
Assets:						
Fixed income and convertible securities	23,312	12.0	7.3	18,078	13.0	6.7
Preference shares	9,295	9.5	n/a	8,658	9.6	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:

30 June 2017	Investments £'000	Cash £'000	Net current assets £'000	Total £'000	Sensitivity Impact +5% £'000	Sensitivity Impact -5% £'000
Canadian Dollar	34,113	229	277	34,619	1,731	(1,731)
US Dollar	27,248	71	713	28,032	1,402	(1,402)
Australian Dollar	16,408	426	375	17,209	860	(860)
Norwegian Krone	4,371	31	–	4,402	220	(220)
European Euro	2,902	230	31	3,163	158	(158)
Hong Kong	–	6	1,035	1,041	52	(52)
Swedish Krone	–	–	–	–	–	–
Swiss Franc	–	1	–	1	–	–
Brazilian Real	–	7	–	7	–	–
	85,042	1,001	2,431	88,474	4,423	(4,423)

30 June 2016	Investments £'000	Cash £'000	Net current assets £'000	Total £'000	Sensitivity Impact +5% £'000	Sensitivity Impact -5% £'000
Canadian Dollar	32,215	74	136	32,425	1,621	(1,621)
US Dollar	17,010	15	160	17,185	859	(859)
Australian Dollar	16,958	2	77	17,037	852	(852)
Norwegian Krone	2,777	–	–	2,777	139	(139)
European Euro	2,346	3	13	2,362	118	(118)
Swiss Franc	–	1	–	1	–	–
Brazilian Real	–	5	–	5	–	–
	71,306	100	386	71,792	3,589	(3,589)

If the value of the currencies had strengthened against the pound in the portfolio by 5 per cent, the impact on the profit or loss and the net asset value would have been positive £4.4 million (2016: positive £3.6 million). If the value of sterling had strengthened by the same amount the effect would have been equal and opposite. The calculations are based on the portfolio valuation, cash balances and net current assets/(liabilities) as at the respective balance sheet dates and are not representative of the year as a whole, and may not be reflective of future market conditions.

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

Credit risk

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

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

	2017 £'000	2016 £'000
Fixed interest investments	**22,649**	17,915
Cash and cash equivalents	**7,371**	4,738
Balances due from brokers	**2,098**	108
Interest, dividends and other receivables	**929**	468
	33,047	23,229

Credit risk on fixed interest investments is considered to be part of market price risk. As at 30 June 2017 and as at 27 September 2017 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 2017 and as at 30 June 2016. No individual investment exceeded 17.1 per cent of net assets as at 30 June 2017 (2016: 6.7 per cent).

As at 30 June 2017, for equity investments representing >1% of the total investments, the Company held 3 per cent or more of issued share capital of the following companies:

	Value per CQS £	Percentage held
Ascendant Resources	4,282,000	17.09%
Plant Impact	2,864,000	10.79%
Odyssey Energy	1,156,000	9.49%
REA Holdings 9% preference shares	4,470,000	6.95%
Trevali Mining	9,259,000	3.07%

Liquidity risk

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

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

The contractual maturities of the financial liabilities at each Balance Sheet date, based on the earliest date on which payment can be required, were as follows:

30 June 2017	Three months or less £'000	More than three months but less than one year £'000	More than one year £'000	Total £'000
Current liabilities	564	163	–	727
Long-term liabilities – CULS	–	–	33,824	33,824
	564	163	33,824	34,551

30 June 2016	Three months or less £'000	More than three months but less than one year £'000	More than one year £'000	Total £'000
Current liabilities	464	163	–	627
Long-term liabilities – CULS	–	–	33,025	33,025
	464	163	33,025	33,652

17 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 2017, the Company held shares in New City Energy Ltd and Golden Prospect Precious Metals Ltd, these two investment companies are also managed by the Investment Manager.

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

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

The balance due to Directors for fees at the year end was £Nil (2016: £11,700).

Glossary of Terms and Definitions

Gearing	Total assets (as below) less all cash (including UK Treasury Stock) divided by shareholders' funds.
Asset Cover	The value of a company's net assets available to repay a certain security. Asset cover is usually expressed as a multiple and calculated by dividing the net assets available by the amount required to repay the specific security.
Discount/Premium	The amount by which the market price per share of an investment trust is lower or higher than the net asset value per share. The discount or premium is normally expressed as a percentage of the net asset value per share.
Dividend Cover	Earnings per share (per the revenue column) divided by dividends per share expressed as a ratio.
Dividend Yield	The annual dividend expressed as a percentage of the share price.
Net Asset Value or NAV	The value of total assets less liabilities. Liabilities for this purpose included current and long-term liabilities. To calculate the net asset value per Ordinary share the net asset value is divided by the number of shares in issue.
Ongoing Charges Ratio	A measure of all operating costs incurred in the reporting period, calculated as a percentage of average net assets in that year. Operating costs exclude costs suffered within underlying investee funds, costs of buying and selling investments, interest costs, taxation and the costs of buying back or issuing ordinary shares.
Price/Earnings Ratio	The ratio is calculated by dividing the middle-market price per share by the earnings per share. The calculation assumes no change in earnings but in practice the multiple reflects the stock market's view of a company's prospects and profit growth potential.
Prior Charges	The name given to all borrowings including debentures, loan and short term loans and overdrafts that are to be used for investment purposes, reciprocal foreign currency loans, currency facilities to the extent that they are drawn down, index-linked securities, and all types of preference or preferred capital and the income shares of split capital trusts, irrespective of the time until repayment.
Redemption Yield	The measure of the annualised total return on the current price of a security up to the date of its repayment. The calculation is based on aggregated income and capital returns, no account being taken of taxation.
Total Assets	Total assets less current liabilities (excluding prior charges as defined above).
Total Return	Total return involves reinvesting the net dividend in the month that the share price goes xd. The NAV total return involves investing the same net dividend in the NAV of the trust on the date to which that dividend was earned, eg quarter end, half year or year end date.

Notice of Annual General Meeting

Notice is hereby given that the nineteenth Annual General Meeting of City Natural Resources High Yield Trust plc will be held at the The Savoy, Strand, London, WC2R 0EU on Tuesday, 28 November 2017 at 11.00am 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 2017, together with the auditor's report thereon.
2. To approve the Directors' Remuneration Policy.
3. To approve the Directors' Remuneration Report for the year ended 30 June 2017.
4. To approve the Company's Dividend Policy.
5. To re-elect Mr G D C Burns, who retires annually, as a Director.
6. To re-elect Mr R Ö Prickett, who retires annually, as a Director.
7. To re-elect Mr A G Evans, who retires annually, as a Director.
8. To re-elect Mrs H F Green, who retires annually, as a Director.
9. To elect Mrs C Cable as a Director.
10. To elect Mr C M Casey as a Director.
11. To re-appoint BDO LLP as Independent Auditor of the Company and to authorise the Directors to determine their remuneration.

Special Business

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

12. That the Company continues as an investment trust pursuant to the undertaking given by the Board in 2003.
13. 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 £1,655,353, such authorisation to expire at the conclusion of the next annual general meeting of the Company to be held in 2018, 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:

14. That, subject to the passing of resolution 13 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 13, 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 £834,365 (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 2018 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.

15. 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 2018 or, if earlier, at the conclusion of the Annual General Meeting of the Company to be held in 2018 unless such authority is renewed, varied or revoked by the Company in general meeting prior to such time; and

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

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

Maitland Administration Services (Scotland) Limited
Secretary
20 Forth Street
Edinburgh EH1 3LH

27 September 2017

Carole Cable

Experience:
She is a partner and co-head of the Energy and Resources division at Brunswick Group LLP, where she advises clients in the mining sector. Carole has had a career connected to the mining and commodities sector, initially on the sell side at JP Morgan and Credit Suisse, and is also a non-executive director of Nyrstar NV, the global mining and multi metals business, and Women in Mining UK.

Christopher Casey

Experience:
He is currently a director of Eddie Stobart Logistics plc, TR European Growth Trust PLC, and Black Rock North American Income Trust PLC. Christopher was a KPMG partner until 2010 since when he has carried out a number of non-executive board roles including chairman of China Polymetallic Mining Ltd.

Notes

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

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

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

4. The right to vote at the meeting is determined by reference to the Company's register of Members as at 6.30 pm on 26 November 2017. 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 27 September 2017, the Company's issued share capital comprised 66,882,974 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 27 September 2017 is 66,882,974.

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

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

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

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

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

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

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

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

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

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

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

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

Report from CQS (UK) LLP Relating to Matters under the Alternative Investment Fund Managers' Directive (unaudited)

City Natural Resources High Yield Trust plc

For the year ended 30 June 2017

Risk management systems

CQS (UK) LLP ("the Investment Manager") employs risk management disciplines which monitor the Company's portfolio and to quantify and manage the associated market and other risks. A permanent independent department has been established by the Investment Manager to perform the risk management function. The risk management and performance analysis team ("RMPA") is led by the Chief Risk Officer and is functionally and hierarchically separate from the operating units of the portfolio managers of the Company.

RMPA is a dedicated control function over the operating units of the Investment Manager and is not involved in the performance activities of the Company. RMPA has designed, documented and implemented effective risk management policies, processes and procedures in order to identify, quantify, analyse, monitor, report on and manage all material risks relevant to the Company's investment strategy. The systems include third party vendor applications such as Tradar, Sungard Front Arena and MSCI Risk Metrics, complemented with a number of proprietary applications.

Material changes to information required to be made available to investors of the Company

There have been no material changes to be disclosed during the year to 30 June 2017.

Assets of the Company subject to special arrangements arising from their illiquid nature

There are no assets of the Company which are subject to special arrangements arising from their illiquid nature.

Alternative Investment Fund Managers (AIFM) Directive – Leverage

For the purposes of the AIFM Directive, leverage is any method which increases the Company's exposure, including the borrowing of cash and the use of derivatives. It is expressed as a percentage of the Company's exposure to its net asset value and is calculated on a gross and commitment method. Under the gross method, exposure represents the sum of the Company's positions after deduction of cash balances, without taking account of any hedging or netting arrangements. Under the commitment method, exposure is calculated without the deduction of cash balances and after certain hedging and netting positions is offset against each other. The leverage limits are set by the AIFM and approved by the Board. The AIFM is also required to comply with the gearing parameters set by the Board in relation to borrowings. The Company's maximum limits and actual leverage levels are shown below:

Leverage exposure	**Gross method**	**Commitment method**
Maximum limit (AIFM)	200%	200%
Maximum limit (Board)	200%	200%
Actual at 30 June 2017	123%	129%

Remuneration

The AIFM has adopted a remuneration policy which meets the requirements of the Directive and has been in place for the current financial year of the Company. The variable remuneration period of the AIFM ended on 30 September 2016 and therefore does not coincide with the financial year of the Company.

The remuneration process is overseen by the remuneration committee (comprised predominately of independent non-executive parties). An internal working group encompassing senior management is responsible for gathering relevant information (both quantitative and qualitative) to evaluate the performance (both short and long term) of individuals, teams and the AIFM as a whole, against external market benchmarks and to utilise this to develop proposals for fixed and variable remuneration for all staff. The remuneration committee receives these proposals and the supporting information and is responsible for independently reviewing and scrutinising the proposals and evidence provided in line with the AIFM's stated objectives and developing its final recommendations for delivery to the governing body of the AIFM and other entities associated with the AIFM.

The variable remuneration of all staff in excess of a threshold, which includes those individuals categorised as remuneration code staff ("code staff"), is subject to the following:

- deferred payment of up to 50% of the variable remuneration for a period of 3 years,
- deferred remuneration is linked to funds managed by the AIFM ,
- the breaching of certain covenants may lead to forfeiture of deferred remuneration, and
- a claw-back provision of deferred remuneration in certain circumstances including future performance issues by the individuals.

The below information provides the total remuneration paid by the AIFM during the year to 30 September 2016. This has been presented in line with the information available to the Company. There is no allocation made by the AIFM to each AIF and as such the disclosure reflects the remuneration paid to individuals who are partly or fully involved in the AIF.

Of the total remuneration paid of $78.5m for the year ended 30 September 2016 to 201 individuals (full time equivalent), $32.2m has been paid as fixed remuneration determined based upon the FCA guidance with the remainder being paid as variable remuneration.

The AIFM has assessed the members of staff whom it determines to be code staff in line with AIFMD as reflected in SYSC 19b.3.4R. Senior management and staff engaged in the control functions are identified based upon their roles and responsibilities within the AIFM. With respect to investment professionals, in determining whether such staff are code staff, due consideration is taken of the allocated capital and trading limits that apply to the Fund managed and whether the individuals report into and seek consent for investment decisions from others who are themselves code staff. There are 15 individuals (full time equivalent) who meet this definition and these individuals have collectively been compensated $26.3m.

Not all individuals are directly remunerated by the AIFM due to the structure of the AIFM entity, however in the interests of meeting the underlying requirement of this disclosure all staff involved have been assessed as if directly remunerated by the AIFM.

Corporate Information

Registered Number
02978531
Registered in England & Wales

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

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

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

Secretary and Administrator
Maitland Administration Services (Scotland) Limited
20 Forth Street
Edinburgh EH1 3LH
Tel: 0131 550 3765

Solicitors
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London EC2Y 5AB

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

Bankers, Custodian and Depositary
HSBC Bank plc
8 Canada Square
London E14 5HQ

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BDO LLP
55 Baker Street
London W1U 7EU

Tax Advisor
KPMG LLP
20 Castle Street
Edinburgh EH1 2EG

AIFM
CQS (UK) LLP
4th Floor
One Strand
London WC2N 5HR

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

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

Shareholder Information

Net Asset Value/Share Price

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

Website
www.ncim.co.uk

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

aic
The Association of Investment Companies

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