City Merchants High Yield Trust Limited

Financial Report for the Period 19 December 2011 to 30 June 2012

KEY FACTS

City Merchants High Yield Trust Limited is a Jersey incorporated investment company listed on the London Stock Exchange. The Company was incorporated on 19 December 2011 and commenced trading on 2 April 2012 following the scheme of reconstruction and voluntary winding up of City Merchants High Yield Trust plc ('CMHYT') on 30 March 2012, as detailed in the prospectus dated 23 February 2012.

Objective of the Company

The Company's investment objective is to seek to obtain both high income and capital growth from investment, predominantly in high-yielding fixed-interest securities.

The Company seeks to provide a high level of dividend income relative to prevailing interest rates through investment in fixed-interest securities, various equity-like securities within fixed-income markets and equity-linked securities such as convertible bonds and in direct equities that have a high income yield. It also seeks to enhance total returns through capital appreciation generated by investments which have equity-related characteristics.

Share Capital and Structure

As at 30 June 2012, the Company's stated share capital consisted of 72,786,327 ordinary shares of no par value.

Gearing is provided by a one-year multicurrency revolving credit facility of £20 million. At 30 June 2012, the Company was not geared.

INTERIM MANAGEMENT REPORT INCORPORATING THE CHAIRMAN'S STATEMENT

Chairman's Statement

My statement in the 2011 annual report of City Merchants High Yield Trust plc set out proposals for the transfer of the assets of that company to City Merchants High Yield Trust Limited ('the new Company'), a Jersey resident company, in exchange for shares. These proposals were intended to put shareholders in a position equivalent to previous years, by increasing the net distributable income as compared with that achievable had CMHYT continued. These proposals were implemented on 2 April 2012 and I am pleased to report that the new Company is operating satisfactorily.

The terms of the re-domicile allow direct comparison of the new Company's financial information from 2 April 2012 with CMHYT's financial information prior to that date. In the six months to 30 June 2012, the total return was 7.8% which compares favourably with the average return of 4.7% from the funds in the Investment Management Association Sterling Strategic Bond sector. An analysis of the total and capital returns for CMHYT and the new Company are shown under the performance statistics. In addition, I am pleased to report that the new Company continues to produce an attractive level of income for shareholders.

As a result of the re-domicile, two interim dividends have been declared in respect of the period to 30 June 2012, one of 2.4p per share paid in March 2012 by CMHYT and another of 2.6p per share to be paid on 24 August 2012 by the new Company. While actual dividends will depend on revenue during the remainder of the year, on the basis of current market conditions the Board continues to target total dividends of 10p per share for 2012.

Clive Nicholson
Chairman
16 August 2012

Performance Statistics

The performance for the six months to 30 June 2012 uses CMHYT figures as at 31 December 2011 and for the period from then until 30 March 2012, and are shown for information purposes.

	CMHYT 31 DEC 2011 TO 30 MAR 2012	NEW COMPANY 2 APR 2012 TO 30 JUN 2012	COMBINED 31 DEC 2011 TO 30 JUN 2012
Total Return			
Total Return NAV % in period	10.4%	–2.5%	7.8%
FTSE All-Share Index*	6.1%	–2.6%	3.3%
FTSE Government Securities – All Stocks Index*	–1.7%	3.8%	2.0%
Capital Return			
Net asset value per share	7.0%	–2.5%	4.4%
FTSE All-Share Index*	5.1%	–3.7%	1.2%
FTSE Government Securities – All Stocks Index*	–2.9%	3.1%	0.1%
Mid-market price per share	9.9%	–7.4%	1.8%

* Source: Thomson Reuters Datastream.

Period End Information

	NEW COMPANY AT 30 JUN 2012	CMHYT AT 30 MAR 2012	CMHYT AT 31 DEC 2011
Net asset value per share	151.97p	155.82p	145.56p
Mid-market price per share	149.62p	161.62p	147.00p
Discount/(premium) per share	1.5%	(3.7%)	(1.0%)
Gearing			
Gross gearing	nil	nil	nil
Net gearing	–5.1%	–1.4%	–5.2%

Manager's Investment Report

As detailed in the Chairman's Statement, the Company is the successor vehicle to CMHYT following its re-domicile to Jersey. It retains the same investment objectives and portfolio managers and substantially the same investment portfolio. Consequently this report covers the six months to 30 June 2012, even though the re-domicile was enacted half way through the period. Over the six months to 30 June 2012, and using the NAV of CMHYT at 31 December 2011, the NAV total return was +7.8%. For the trading period 2 April to 30 June 2012, the NAV total return was –2.5%. The Company's cash position is just over 5% and the borrowing facility was undrawn at 30 June 2012.

Market Background

The first six months of 2012 has been a positive period for the high yield bond market and for corporate bonds in general. Investor concerns about the Eurozone banking sector were soothed by support from monetary authorities and this combined with a low level of net new issuance to push down yields from the high levels reached in the later months of 2011. Corporate fundamentals also remain relatively strong and default rates low. According to Moody's, the default rate in European high yield bonds in the second quarter of 2012 was 2.6%, down from 3.0% in the first quarter, but up slightly from 2.1% in the second quarter of 2011. European high yield issuance in the first half of the year was estimated by Barclays to have been €28.4 billion across all currencies, approximately 30% lower than the same period a year ago. This issuance was concentrated in the first quarter, when market conditions were strongest. Market performance has continued to be marked by bouts of volatility, driven primarily by developments in the Eurozone debt crisis.

According to data from Merrill Lynch, the total return for European high yield bonds in the first six months of 2012 was 11.9% in local currency terms (8.8% in sterling terms). The aggregate yield for the sector fell 258 basis points ('bps') to 9.57%. Sterling investment grade bonds returned 5.8%. Within investment grade, financials were the strongest sector, returning 8.1%, led by subordinated bank debt. The aggregate yield on sterling Tier 1 subordinated bank debt fell 285 bps to 10.43%. By comparison, following a strong rally in 2011 Gilts returned 1.9%, their yield rising 8 bps to 1.76%.

The European Central Bank's Long Term Refinancing Operations ('LTRO'), offering three year loans with relaxed collateral requirements to Eurozone banks, gave a significant boost to credit markets. Over the course of the two exercises, in December and February, more than €1 trillion was loaned to several hundred banks, effectively resolving market concerns about the immediate funding of the Eurozone banking system. Investor risk appetite, which had been depressed by fears of systemic failure, recovered strongly, boosting not just banking debt but all credit-sensitive assets. The gains in these markets year-to-date were concentrated in this earlier part of the period. Following the second LTRO, the underlying issue of the sustainability of Eurozone sovereign debt levels began to re-assert itself in investor sentiment. Political success in France and Germany for parties opposing government austerity and signs of weakness in Spanish banks pushed up credit yields somewhat from the levels of the first quarter. European authorities announced a bail-out plan for Spain's banks and also agreed in the June EU summit to extend the flexibility of EU rescue funds to support sovereign and corporate bond markets. Combined, these measures eased market concerns, although questions about the detail and implementation of these plans clouded the outlook.

The UK officially re-entered recession by recording its second consecutive quarter of negative growth in the first three months of 2012. Consumption remains hamstrung by persistently high levels of unemployment and low earnings growth. The rate of CPI inflation fell from 4.2% in December to 2.4% in June, as commodity prices fell and the impact of the 2011 VAT increase passed out of the annual change calculation. In this environment, the Bank of England was happy to hold its interest rate at the record low level of 0.5%.

Portfolio Strategy

Notwithstanding the rally over the early months of 2012, we believe that we can still find select bonds across the high yield universe to add attractive risk-adjusted yields to the portfolio. While yields have fallen over the first half, they remain higher than during much of 2011 and we think they compare favourably with the very low levels of yield currently available on core government bonds and very high credit quality corporate bonds. We have added to our portfolio over the period as we have identified value opportunities. Purchases included Boparan 9.875% (Food, B+), Direct Line 9.25% (Insurance, BBB+) and Lecta 8.875% (Paper, B+). There has been no significant change to our sector exposures. Banks and insurance remain the largest two sectors held.

We continue to see financials as the main area of value. We think that the reform of bank capital structures which has taken place over the past three years and which is ongoing will result in better capitalised, more liquid, better funded and more conservative institutions. As debt holders, we welcome this and we think that there are generous yields available in the market, especially in large, northern European and American 'national champion' banks, relative to the credit and subordination risks entailed in these bonds and relative to non-financials. The sector continues to be supported by tenders from banks across Europe, including Spain and Italy, to buy back their own debts. We hold significant exposure in the fund to subordinated bank bonds as well as senior bank debt.

Outlook

The high yield bond market is likely to continue to be affected by the shifts up and down in risk appetite that have been a feature of investment markets generally over the last few years. These shifts are now being driven in particular by developments in the Eurozone debt crisis. While many individual companies have fundamentally strong balance sheets, risk appetite and the market can be moved by changes in political and macroeconomic factors. This adds volatility but can also present opportunities for investors to capture attractive yields.

Both in Europe and in the US, the tone of economic news has been worsening. While the US economy is continuing to recover, the pace of improvement has slackened, with employment growth and economic activity indicators slowing. In the UK and the Eurozone, business activity and consumer confidence measures are consistent with recession or near-recessionary levels of growth. As well as presenting a challenge to corporate earnings, this is increasing the pressure on national finances and debt levels, raising the possibility that more members of the Eurozone will require support. Central banks have maintained loose monetary conditions, both through interest rates and through asset purchases and the supply of liquidity to the financial system. We do not expect that monetary policy will be tightened very much in the coming quarters.

In such an environment of low interest rates, with risk-aversion driving the yields of core government bonds and other more interest rate-sensitive assets to low levels, we continue to see opportunities in credit risk and to believe that a portfolio of higher-yielding bonds such as ours is an attractive option for income and return.

Invesco Asset Management Limited
Manager

Paul Read Paul Causer
Portfolio Managers

16 August 2012

Related Parties

Invesco Asset Management Limited ('IAML'), a wholly-owned subsidiary of Invesco Limited, acts as Manager to the Company. Details of IAML's services and fee arrangements are given in the Prospectus dated 23 February 2012, which is available on the Manager's website at www.invescoperpetual.co.uk/investments.

Principal Risks and Uncertainties

The principal risk factors relating to the Company can be summarised as follows:

– Investment Policy (incorporating the Investment Objective) and Process – the success of the Company depends on the Investment Manager's ability to achieve the Company's investment objective. There is no guarantee that the Company's investment objective will be achieved or will provide the returns sought by the Company.

– Market Risk – global markets have been experiencing volatility, disruption and instability. Material changes affecting global capital markets may have a negative effect on the Company's business, financial condition and results of operations.

– Portfolio Performance – all of the Company's investment decisions are made by the Investment Manager and, accordingly, the poor performance of any individual portfolio investments has a negative effect on the value of the portfolio and consequently the Net Asset Value ('NAV') per share.

– Non-investment Grade, High-Yield Fixed-Interest Securities – these are subject to credit, liquidity, duration and interest rate risks.

– Gearing – performance maybe geared by means of a bank credit facility. Whilst gearing will be used with the aim of enhancing returns on the portfolio when the value of the Company's assets is rising, it will have the opposite effect when the value is falling. There is no guarantee that any credit facility would be renewable at maturity on terms acceptable to the Company.

– Derivatives – the Company may enter into derivative transactions for efficient portfolio management. Derivative instruments can be highly volatile and expose investors to a high risk of loss.

– Dividends – the ability of the Company to pay dividends quarterly is dependent on the level and timing of receipt of income on its investments.

– Regulatory and Tax Related – whilst compliance with rules and regulations is closely monitored, breaches could affect returns to shareholders. Changes to regulation or to the Company's tax status or tax treatment might adversely affect the Company.

– Resources: Reliance on Third Party Providers – failure by any service provider to carry out its obligations in accordance with the terms of its appointment could have a materially detrimental impact on the effective operation of the Company and on the ability of the Company to pursue its investment policy successfully.

– Ordinary Shares – the shares may trade at a discount to NAV and shareholders may be unable to realise their investments through the secondary market at NAV. The existence of a liquid market in the shares cannot be guaranteed.

In the view of the Board, these principal risks and uncertainties are as applicable to the remaining six months of the financial period as they were to the period under review.

Going Concern

The financial statements are prepared on a going concern basis. The Directors consider that going concern is the appropriate basis as they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. In reaching this conclusion, the Directors have taken into account the Company's investment objective, its risk management policies, the diversified nature of its investment portfolio, the borrowing facility which can be used to meet short-term funding requirements, the liquidity of most of its investments which could be used to repay any borrowings in the event that the facility could not be renewed or replaced and the ability of the Company to meet all of its liabilities and ongoing expenses.

THIRTY LARGEST INVESTMENTS AT 30 JUNE 2012

ISSUER/ISSUE	MOODY'S/S&P RATING	SECTOR	COUNTRY OF INCORPORATION	MARKET VALUE £'000	% OF PORTFOLIO
LBG Capital		Financial	UK		
7.975% 15 Sep 2024	B1/BB			2,948	
6.385% 12 May 2020	Ba3/BB+			963	
9.000% 15 Dec 2019	Ba3/BB+			873	
6.439% 23 May 2020	B1/BB			643	
16.125% 10 Dec 2024	Ba3/BB+			121	
				5,548	5.4
Premier Farnell		Industrials	UK		
89.2P Cum Cnv Red Pref	NR/NR			3,616	3.5
Societe Generale		Financial	France		
8.875% FRN Perpetual	Ba2/BBB-			2,917	2.8
Vedanta Resources		Basic Materials	UK		
4% Cnv 30 Mar 2017	NR/BB			2,183	
8.25% 07 Jun 2021	Ba3/BB			585	
				2,768	2.7
Aviva		Financial	UK		
6.125% Perpetual	A3/BBB+			2,415	2.4
Balfour Beatty		Industrials	UK		
10.75P Gross Cum Cnv Red Prf	NR/NR			2,306	2.2
Citigroup		Financial	USA		
FRN 28 Jun 2067	Baa3/BB			1,760	
Pfd USD100	NR/NR			497	
Common stock	Equity			35	
				2,292	2.2
Intergen		Oil & Gas	Holland		
9.5% 30 Jun 2017	Ba3/BB-			2,030	
8.5% 30 Jun 2017	Ba3/BB-			202	
				2,232	2.2
General Motors		Industrials	UK		
Wts 10 Jul 2019	Equity			1,916	
Wts 10 Jul 2016	Equity			214	
Motors Liquidation	Equity			68	
				2,198	2.1
Cemex		Consumer Goods			
4.875% 15 Mar 2015	NR/NR		Mexico	1,642	
9.250% 12 May 2020	NR/B-		Spain	463	
				2,105	2.0
REA Finance		Consumer Goods	Holland		
9.5% 31 Dec 2017	NR/NR			2,070	2.0
Intesa Sanpaolo		Financials	Italy		
8.375% FRN Perpetual	Ba1/BB+			2,000	2.0

ISSUER/ISSUE	MOODY'S/S&P RATING	SECTOR	COUNTRY OF INCORPORATION	MARKET VALUE £'000	% OF PORTFOLIO
Abengoa		Industrials	Spain		
6.875% Cnv Nts 24 Jul 2014	NR/NR			1,006	
8.500% 31 Mar 2016	Ba3/B+			731	
4.5% 03 Feb 2017	NR/NR			250	
				1,987	1.9
DFS Furniture		Consumer Goods	UK		
9.750% 15 Jul 2017	B2/B			1,971	1.9
First Hydro Finance		Utilities	UK		
9% 31 Jul 2021	NR/NR			1,821	1.8
Catlin		Financial	USA		
7.249% FRN Perpetual	NR/BBB+			1,767	1.7
Barclays		Financial	UK		
9.25% 29 Nov 2049	Ba1/BBB			1,000	
6.625% 30 Mar 2022	Baa3/BBB+			764	
				1,764	1.7
Unity Media		Consumer Services	Germany		
9.625% 01 Dec 2019	B3/B-			1,754	1.7
American International Group		Financials	USA		
8.625% FRN 22 May 2068	Baa2/BBB			999	
8.175% 15 May 2068	Baa2/BBB			685	
				1,684	1.6
UBS Capital Securities		Financials	Switzerland		
8.836% FRN Perpetual	Ba2/BBB-			1,633	1.6
Origin		Oil & Gas	Australia		
7.875% FRN 16 Jun 2071	Baa3/BB			1,568	1.5
Enterprise Inns		Consumer Goods	UK		
6.500% 06 Dec 2018	NR/BB-			1,560	1.5
RWE		Utilities	Germany		
4.625% FRN Perpetual	Baa2/BBB			1,550	1.5
SSE		Utilities	UK		
5.025% Perpetual	Baa2/BBB			1,544	1.5
Santos Finance		Oil & Gas	Australia		
8.250% FRN 22 Sep 2070	NR/BB			1,536	1.5
Iron Mountain		Support Services	USA		
6.75% 15 Oct 2018	B1/B+			1,399	1.4
Credit Agricole		Financials	France		
7.589% FRN Perpetual	Ba2/BBB-			1,288	1.3
Ineos		Basic Materials	UK		
9.250% 15 May 2015	B1/B+			1,283	1.3
General Accident		Financial	UK		
8.875% Cum Irrd Prf	NR/NR			1,159	1.1
Suez		Utilities	France		
4.82% FRN Perpetual	Baa2/NR			1,148	1.1
				60,883	59.1
Other investments				42,051	40.9
Total investments				102,934	**100.0**

DIRECTORS' RESPONSIBILITY STATEMENT

in respect of the preparation of the interim financial report.

The Directors are responsible for preparing the financial report, using accounting policies consistent with applicable law and International Financial Reporting Standards.

The Directors confirm that to the best of their knowledge:

– the condensed set of financial statements contained within the financial report have been prepared in accordance with the International Accounting Standards 34 'Interim Financial Reporting';

– the interim management report includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R of the FSA's Disclosure and Transparency Rules; and

– the interim management report includes a fair review of the information required on related party transactions.

The financial report has not been audited or reviewed by the Company's auditor.

Signed on behalf of the Board of Directors.

Clive Nicholson
Chairman

16 August 2012

CONDENSED STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD 19 DECEMBER 2011 TO 30 JUNE 2012

Trading commenced on 2 April 2012

	STATED CAPITAL £'000	CAPITAL RESERVE £'000	REVENUE RESERVE £'000	TOTAL £'000
Period Ended 30 June 2012				
At 19 December 2011	—	—	—	—
Issue of new shares	113,930	—	—	113,930
Issue costs	(520)	—	—	(520)
Return for the period from the income statement	—	(4,868)	2,073	(2,795)
At 30 June 2012	113,410	(4,868)	2,073	110,615

CONDENSED BALANCE SHEET
AT 30 JUNE 2012
Registered in Jersey No. 109714

	30 JUN 2012 £'000
Non-current assets	
Investments held at fair value through profit or loss:	
United Kingdom	51,940
Overseas	50,994
	102,934
Current assets	
Other receivables	2,442
Amounts due from brokers	32
Cash and cash equivalents	5,612
	8,086
Total assets	111,020
Current liabilities	
Other payables	(346)
Derivative financial instruments – loss on forward currency contract unrealised	(59)
	(405)
Net assets	110,615
Capital and reserves	
Stated capital	113,410
Capital reserve	(4,868)
Revenue reserve	2,073
Shareholders' funds	110,615
Net asset value per ordinary share – note 3	151.97p

CONDENSED STATEMENT OF CASH FLOW
FOR THE PERIOD 19 DECEMBER 2011 TO 30 JUNE 2012
Trading commenced on 2 April 2012

	19 DEC 2011 TO 30 JUN 2012 £'000
Cash flow from operating activities	
Loss before tax	(2,791)
Taxation	(4)
Adjustment for:	
Purchases of investments	(4,768)
Sales of investments	5,261
	493
Losses on investments	6,069
Exchange differences	(5)
Profit on derivative financial instruments – currency hedges	(1,274)
Finance costs	7
Operating cash flows before movements in working capital	2,495
Decrease in receivables	381
Increase in payables	263
Net cash flows from operating activities before and after tax	3,139
Cash flow from financing activities	
Issue costs paid	(444)
Cash received from City Merchants High Yield Trust plc	1,579
Net cash flows from financing activities	1,135
Net increase in cash and cash equivalents	4,274
Net foreign exchange difference	5
Realised profits on derivative financial instruments	1,333
Cash and cash equivalents at the beginning of the period	—
Cash and cash equivalents at the end of the period	5,612

CONDENSED STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD 19 DECEMBER 2011 TO 30 JUNE 2012
Trading commenced on 2 April 2012

	FOR THE PERIOD 19 DEC 2011 TO 30 JUN 2012		
	REVENUE £'000	CAPITAL £'000	TOTAL £'000
Loss on investments at fair value	—	(6,069)	(6,069)
Exchange differences	—	5	5
Profit on derivative financial instruments - currency hedges	—	1,274	1,274
Income			
UK dividends	291	—	291
UK bond – interest	767	—	767
Overseas bond – interest	1,255	—	1,255
Deposit interest	4	—	4
	2,317	(4,790)	(2,473)
Investment management fee	(138)	(75)	(213)
Other expenses	(97)	(1)	(98)
Profit/(loss) before finance costs and taxation	2,082	(4,866)	(2,784)
Finance costs	(5)	(2)	(7)
Profit/(loss) before tax	2,077	(4,868)	(2,791)
Taxation	(4)	—	(4)
Profit/(loss) after tax	2,073	(4,868)	(2,795)
Return per ordinary share - note 2	2.9p	(6.7)p	(3.8)p

The total column of this statement represents the Company's statement of comprehensive income, prepared in accordance with International Financial Reporting Standards. The supplementary revenue and capital columns are presented for information in accordance with the Statement of Recommended Practice issued by the Association of Investment Companies. All items in the above statement derive from continuing operations and the Company has no other gains or losses. No operations were discontinued in the period.

1. Principal Activity

The Company is a closed-end investment company incorporated in Jersey and operates under the Companies (Jersey) Law 1991. The principal activity of the Company is investment in a diversified portfolio of high yielding corporate and government bonds and, to a lesser extent, equities and other instruments as appropriate to its Investment Policy.

2. Principal Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below.

(a) Basis of Preparation

(i) *Accounting Standards Applied*

The financial statements have been prepared on an historical cost basis, except for the measurement at fair value of investments and derivatives, and in accordance with the applicable International Financial Reporting Standards ('IFRS') and interpretations issued by the International Financial Reporting Interpretations Committee as adopted by the European Union. The standards are those endorsed by the European Union and effective at the date the financial statements were approved by the Board.

Where presentational guidance set out in the Statement of Recommended Practice ('SORP') 'Financial Statements of Investment Trust Companies and Venture Capital Trusts', issued by the Association of Investment Companies in January 2009, is consistent with the requirements of IFRS, the Directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP. The supplementary information which analyses the statement of comprehensive income between items of a revenue and a capital nature is presented in accordance with this.

(b) Foreign Currency

(i) *Functional and Presentation Currency*

The financial statements are presented in sterling, which is the Company's functional and presentation currency and the currency in which the Company's share capital and expenses are denominated, as well as certain of its assets and liabilities.

(ii) *Transactions and Balances*

Transactions in foreign currency are translated to sterling at the rate of exchange ruling on the date of such transactions. Foreign currency assets and liabilities are translated to sterling at the rates of exchange ruling at the balance sheet date. Any gains or losses, whether realised or unrealised, are taken to the capital reserve or to the revenue reserve, depending on whether the gain or loss is of a capital or revenue nature. All gains and losses are recognised in the statement of comprehensive income.

(c) Financial Instruments

(i) *Recognition of Financial Assets and Financial Liabilities*

The Company recognises financial assets and financial liabilities when the Company becomes a party to the contractual provisions of the instrument. The Company will offset financial assets and financial liabilities if the Company has a legally enforceable right to set off the recognised amounts and interests and intends to settle on a net basis.

(ii) *Derecognition of Financial Assets*

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the right to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in the transferred financial asset that is created or retained by the Company is recognised as an asset.

(iii) *Derecognition of Financial Liabilities*

The Company derecognises financial liabilities when its obligations are discharged, cancelled or expired.

(iv) *Trade Date Accounting*

Purchases and sales of financial assets are recognised on trade date, being the date on which the Company commits to purchase or sell the assets.

(v) *Classification of financial assets and financial liabilities*

Financial assets

The Company's investments are classified as held at fair value through profit or loss.

Financial assets held at fair value through profit or loss are initially recognised at fair value, which is taken to be their cost, with transaction costs expensed in the statement of comprehensive income, and are subsequently valued at fair value.

For investments that are actively traded in organised financial markets, fair value is determined by reference to stock exchange quoted bid prices at the balance sheet date. For investments that are not actively traded or where active stock exchange quoted bid prices are not available, fair value is determined by reference to a variety of valuation techniques including broker quotes and price modelling. Where there is no active market, investments are valued by the Directors at fair value based on recommendations from Invesco's Pricing Committee using valuation techniques such as earnings multiples, recent arm's length transactions and net assets.

Financial liabilities

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method.

(d) Hedging and Derivatives

Forward currency contracts entered into for hedging purposes are valued at the appropriate forward exchange rate ruling at the balance sheet date. Profits or losses on the closure or revaluation of positions are included in capital reserves.

Futures contracts are entered into for hedging purposes and any profits and losses on the closure or revaluation of positions are included in capital reserves.

Derivative instruments are valued at fair value in the balance sheet.

(e) Cash and Cash Equivalents

Cash and cash equivalents comprise cash at bank and short-term deposits with an original maturity date of three months or less.

(f) Revenue Recognition

Interest income arising from fixed income securities and cash is recognised in the statement of comprehensive income using the effective interest method. Dividend income arises from equity investments held and is recognised on the date investments are marked 'ex-dividend'. Deposit interest and underwriting commission are taken into account on an accruals basis.

(g) Expenses and Finance Costs

All expenses are accounted for on an accruals basis and are recognised in the statement of comprehensive income. Investment management fees and finance costs are allocated 35% to capital and 65% to revenue in accordance with the Board's expected long-term split of returns, in the form of capital gains and income respectively, from the investment portfolio. Except for custodian dealing costs, all other expenses are charged through revenue.

(h) Tax

Overseas interest and dividends are shown gross of withholding tax and the corresponding irrecoverable tax is shown as a charge in the statement of comprehensive income.

3. Taxation

The Company is subject to Jersey income tax at the rate of 0%. The overseas tax charge consists of irrecoverable withholding tax.

4. Basis of Earnings per Ordinary Share

Earnings per ordinary share are based on the profit/(loss) after tax for the period and on 72,786,327 weighted average number of shares in issue during the period.

5. Dividends

The 1st interim dividend for 2012 of 2.6p has been declared and will be paid on 24 August 2012 to ordinary shareholders on the register on 27 July 2012.

6. Basis of Net Asset Value per Ordinary Share

The NAV at 30 June 2012 is based on shareholders' funds of £110,615,000 and 72,786,327 shares in issue.

7. Stated Capital

At launch 72,786,327 ordinary shares of no par value were issued to the shareholders of City Merchants High Yield Trust plc on a 1:1 basis in lieu of their own investment. The net consideration for these shares was as follows:

	£'000
Investments	109,528
Cash	1,579
Accrued income	2,823
	113,930
Issue costs	(520)
	113,410

8. The financial information contained in this report, which has not been reviewed or audited, does not constitute statutory accounts as defined in Article 104 of Companies (Jersey) Law 1991 and has not been audited.

By order of the Board
R&H Fund Services (Jersey) Limited
Company Secretary 16 August 2012

DIRECTORS AND ADVISERS

Directors
Clive A. H. Nicholson (Chairman)
Philip Taylor (Audit Committee Chairman)
Philip Austin
John Boothman
Winifred Robbins

Investment Manager
Invesco Asset Management Limited
30 Finsbury Square
London EC2A 1AG

☎ 020 7065 4000

Company Secretary, Administrator and Registered Office
R&H Fund Services (Jersey) Limited
P.O. Box 83
Ordnance House
31 Pier Road
St. Helier
Jersey JE4 8PW

Company Secretarial Contact: Hilary Jones
☎ 01534 825323

Registered in Jersey No: 109714

Transfer Agent
Capita Registrars (Jersey) Limited
12 Castle Street
St Helier
Jersey JE2 3RT

Shareholders who hold shares direct and not through a savings scheme or ISA and have queries relating to their shareholding should contact the Transfer Agent's call centre on:

☎ 0871 664 0300 (from outside the UK +44 20 8639 3399)
Calls cost 10p per minute plus network extras. Lines are open Monday to Friday 9.00am to 5.30pm.

Shareholders can also access their holding details via Capita's websites www.capitaregistrars.com or www.capitashareportal.com

The Registrars provide an online and telephone share dealing service for existing shareholders who are not seeking advice on buying or selling. This service is available at:

☎ 0871 664 0364 (from outside the UK +44 20 3367 2691)
www.capitadeal.com
Calls cost up to 10p per minute plus network extras. Lines are open Monday to Friday 8am to 4.30pm.

Dividend Re-Investment Plan
Capita Registrars manage a Dividend Re-Investment Plan for the Company. Shareholders wishing to re-invest their dividends should contact the Registrars at the above address.

Corporate Broker
Winterflood Securities Limited
The Atrium Building
Cannon Bridge
25 Dowgate Hill
London EC4R 2GA

Invesco Perpetual Investor Services
Invesco Perpetual has an Investor Services Team available from 8.30am to 6pm, Monday to Friday (excluding Bank Holidays on:

☎ 0800 085 8677
www.invescoperpetual.co.uk/investmenttrusts

Savings Scheme and ISA Administrators
For both the Invesco Perpetual Investment Trust Savings Scheme and ISA, contact:

Invesco Perpetual
Perpetual Park
Perpetual Park Drive
Henley-on-Thames
Oxfordshire RG9 1HL

☎ 0800 085 8677

Manager's Website
Information relating to the Company can be found on the Manager's website, at www.invescoperpetual.co.uk/investmenttrusts.

The contents of websites referred to in this document, or accessible from links within those websites, are not incorporated into, nor do they form part of, this interim report.

Invesco Perpetual

Invesco Asset Management Limited
30 Finsbury Square
London EC2A 1AG
☎ 020 7065 4000

Invesco Asset Management Limited is a wholly owned subsidiary of Invesco Limited and is authorised and regulated by the Financial Services Authority

Invesco Perpetual is a business name of Invesco Asset Management Limited