

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the action you should take, you should immediately consult a stockbroker, accountant or other independent professional adviser authorised under the Financial Services and Markets Act 2000 if you are resident in the United Kingdom or, if not, from another appropriately authorised independent financial adviser. Your attention is specifically drawn to the section headed “Risk Factors Relating to the Proposals” in Part II of this document.**

If you have sold or otherwise transferred all of your Shares in City Merchants High Yield Trust plc (the “**Company**”), please send this document, together with the accompanying documents, as soon as possible to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected for onward transmission to the purchaser or transferee, except that such documents should not be sent to any jurisdiction where to do so might constitute a violation of local securities laws or regulations, including, but not limited to, any Restricted Jurisdiction. Shareholders (including, without limitation, nominees, trustees or custodians) who would, or otherwise intend to, forward this document and its accompanying documents outside the United Kingdom should read the section headed “Overseas Shareholders” in Part II of this document.

Winterflood Securities Limited, which is authorised and regulated in the United Kingdom by the Financial Services Authority, acting through its division, Winterflood Investment Trusts, is acting for the Company and for no-one else, including any recipient of this document, in connection with the Proposals and will not be responsible to anyone other than the Company for providing the protections afforded to customers of Winterflood Securities or for providing advice in relation to the Proposals.

Winterflood Securities has given and not withdrawn its consent to the issue of this document and the inclusion of its name and the references to it in this document in the form and context in which they appear.

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## **City Merchants High Yield Trust plc**

*(Incorporated in England and Wales, Registered No. 02649592)*

### **Recommended Proposals for the reconstruction and voluntary winding up of the Company and the transfer of the assets of the Company to City Merchants High Yield Trust Limited**

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This document should be read in conjunction with the accompanying Prospectus relating to City Merchants High Yield Trust Limited. The Prospectus is the sole responsibility of City Merchants High Yield Trust Limited and its directors.

**The distribution of this document and the accompanying documents into jurisdictions other than the United Kingdom may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restrictions. Any failure to comply with any such restrictions may constitute a violation of the securities laws or regulations of such jurisdictions. In particular, subject to certain exceptions, this document and the accompanying documents should not be distributed, forwarded to or transmitted in or into the United States.**

You will find set out at the end of this document notices convening extraordinary general meetings of the Company to be held at 12.30 p.m. on 22 March 2012 and 12.30 p.m. on 30 March 2012 to approve the Proposals and to place the Company into members’ voluntary liquidation. Both EGMs will be held at 30 Finsbury Square, London, EC2A 1AG. The accompanying forms of proxy for use by Shareholders in relation to the EGMs should be received by the Company’s Registrar, Capita Registrars, PXS, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU as soon as possible but, in any event, not later than 48 hours before the time appointed for the relevant EGM. CREST members who want to appoint a proxy through the CREST electronic proxy appointment service or Shareholders who wish to appoint a proxy via Capita Registrar’s website are referred to note 5 of the two notices of the EGMs. Completion and return of a form of proxy or the giving of a CREST proxy instruction will not preclude a Shareholder from attending the meeting in person if he or she so wishes. Savings Scheme Participants must ensure that forms of direction for voting at the EGMs are received by not later than 5.00 p.m. on 19 March 2012 in respect of the First EGM and by not later than 5.00 p.m. on 27 March 2012 in respect of the Second EGM.

For the purposes of Jersey law, the Directors of the Company have taken all reasonable care to ensure that the facts stated in this Circular are true and accurate in all material respects, and that there are no other facts the omission of which would make misleading any statement in the document, whether of fact or of opinion. All the Directors accept responsibility accordingly.

Capitalised terms contained in this document shall have the meanings set out in the “Definitions” section on pages 21 to 23 of this document.

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## EXPECTED TIMETABLE

2012\*

|  |                               |
|--|-------------------------------|
| Ex-dividend date for the Shares in respect of the Interim Dividend   | 25 January                    |
| Record date for the Interim Dividend   | 27 January                    |
| Payment of Interim Dividend  | 24 February                   |
| Ex-dividend date for the Shares in respect of the Special Dividend   | 7 March                       |
| Record date for the Special Dividend   | 9 March                       |
| Latest time and date for receipt of Forms of Proxy for the First EGM   | 12.30 p.m. on 20 March        |
| <b>First EGM</b>   | <b>12.30 p.m. on 22 March</b> |
| Date from which it is advised that dealings in Shares should be for cash settlement and immediate delivery of documents of title | 26 March                      |
| Payment of Special Dividend  | 28 March                      |
| Latest time for receipt of Forms of Proxy for the Second EGM   | 12.30 p.m. on 28 March        |
| Record date for the Scheme   | 6.00 p.m. on 28 March         |
| Shares disabled in CREST**   | 6.00 p.m. on 28 March         |
| Shares reclassified, Official List amended and dealings in Reclassified Shares commence on the London Stock Exchange             | 8.00 a.m. on 29 March         |
| Listing of Reclassified Shares on the Official List suspended  | 7.30 a.m. on 30 March         |
| <b>Second EGM</b>  | <b>12.30 p.m. on 30 March</b> |
| Effective date for implementation of the Proposals   | 30 March                      |
| Date on which the Company's assets are transferred to CMHYTL   | 2 April                       |
| Dealings commence in CMHYTL Shares   | 8.00 a.m. on 2 April          |
| Shareholders holding Shares in uncertificated form credited with CMHYTL Shares   | 8.00 a.m. on 2 April          |
| Certificates for CMHYTL Shares despatched  | by 16 April                   |

\* All references in this document to times are to London times.

\*\* For the avoidance of doubt, the Register will remain open until the Effective Date.

It is expected that the listing of the Shares will be cancelled on or as soon as practicable after 30 March 2013, or such other time as the Directors may determine.

If you have any queries in relation to the Proposals or the Forms of Proxy, you may call the Shareholder helpline on 0871 664 0300 (+44 (0) 208 639 3399 from outside the UK) between 8.30 a.m. and 5.30 p.m. on any business day. Calls from the UK cost 10p per minute plus network charges. Calls to the helpline from outside the UK will be charged at applicable international rates. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes. Please note that the Shareholder helpline will not provide advice on the merits of the Proposals or give any financial or tax advice.

**PART I**  
**LETTER FROM THE CHAIRMAN**

**CITY MERCHANTS HIGH YIELD TRUST PLC**

*(registered as an investment company in England and Wales no. 02649592)*

*Directors*

Clive Nicholson (Chairman)  
Christopher FitzGerald  
Richard King  
Kenneth MacLennan  
Winifred Robbins

*Registered office*

30 Finsbury Square  
London  
EC2A 1AG

23 February 2012

Dear Shareholder

**RECOMMENDED PROPOSALS FOR THE RECONSTRUCTION AND VOLUNTARY  
WINDING UP OF THE COMPANY AND THE TRANSFER OF THE ASSETS OF THE  
COMPANY TO CITY MERCHANTS HIGH YIELD TRUST LIMITED**

**INTRODUCTION**

On 3 October 2011 the Board announced that it was considering proposals for the assets of the Company to be transferred to an offshore-domiciled successor vehicle in order to continue to deliver tax-efficient investment returns from high-yielding fixed-interest securities.

The purpose of this Circular is to provide details of the Proposals and to seek your approval for their implementation. To this end, extraordinary general meetings of the Company to approve the Proposals are being convened for 22 March 2012 and 30 March 2012. Notices of these EGMs are set out at the end of this document. Enclosed with this document is a prospectus (the “**Prospectus**”) for City Merchants High Yield Trust Limited (“**CMHYTL**”), a newly-formed closed-ended investment company incorporated in Jersey, Channel Islands and established as a collective investment fund, authorised by the Jersey Financial Services Commission (“**JFSC**”) as a listed fund. CMHYTL will be the offshore successor to the Company if the Proposals are approved and implemented.

The Board, advised by Winterflood Securities, is unanimously recommending the Proposals. The procedure for voting at the EGMs is set out on pages 9 and 10.

**BACKGROUND**

The Company is resident in the United Kingdom for tax purposes and has historically been approved as an investment trust. UK companies which qualify for tax purposes as investment trusts are exempt from UK corporation tax on realised capital gains. The exemption from tax applies to capital profits but the Company remains taxable on its income profits. A significant proportion of the income received by the Company from its investment portfolio, being derived mainly from fixed-interest securities, is therefore liable to UK corporation tax.

In recent years, the Company’s ability to pay dividends has been enhanced because it has been able to reduce its liability to UK corporation tax through offsetting against taxable income the surplus management expenses which arose through the merger with Exeter Selective Assets Investment Trust plc in November 2005.

These surplus management expenses are now nearly exhausted and the Company is writing down the associated deferred tax asset on its balance sheet, which is giving rise to a tax charge of an amount equal to the amount of the write down. Consequently, the Company has incurred a tax charge in each of the years ended 31 December 2010 and 31 December 2011 and, for the same reasons, would incur a tax charge for the current financial year if the Company continued in its present form. Thereafter, the surplus management expenses having been exhausted, the Company would be liable to UK corporation tax on the full amount of its taxable investment income. Such a tax charge would

have a significant and recurring impact on distributable reserves, which would reduce dividends and total returns to Shareholders. Based on current revenue levels, it is estimated that a full annual UK corporation tax charge would be approximately £1.9m, equivalent to approximately 2.6 pence per Share.

The Directors, together with the Company's advisers, have examined methods to enable the Company to continue to deliver tax-efficient investment returns to Shareholders from high-yielding fixed-interest securities. The Board has determined that the best interests of Shareholders as a whole would be served by transferring the assets of the Company to CMHYTL in exchange for the issue of shares in CMHYTL to the Shareholders. The Board has chosen Jersey as the domicile for CMHYTL because of the established practice of Invesco Asset Management Limited (the "**Investment Manager**") in Jersey, together with its relationships with services providers there.

As a consequence of the Proposals the Company has written off £1.445 million of the deferred tax asset on the Company's balance sheet equivalent to approximately 2.0 pence per Share, representing the estimated value of surplus management expenses that will be unused at the Effective Date. Although this will negatively affect the Net Asset Value, there would be a similar impact if the Proposals were not implemented and the Company continued in its present form, as it is estimated that the deferred tax asset would be written off fully by the end of 2012. Therefore, although the write-off of the tax asset is accelerated, the Company will not lose any tax benefit by moving offshore.

### **BENEFITS OF THE PROPOSALS TO THE COMPANY**

The Proposals are intended to put Shareholders in a position equivalent to previous years when the Company had sufficient surplus management expenses to offset fully its liability to UK corporation tax. The Proposals are expected to provide the following benefits for CMHYTL:

- CMHYTL will not be subject to UK corporation tax, which should significantly increase its net distributable income as compared with the Company and thereby enhance total returns;
- any uncertainty over the Company's tax situation that may have affected trade in the Shares will be removed; and
- CMHYTL may enjoy increased flexibility as compared with the Company because it will not seek to be approved as an investment trust in the UK.

The Prospectus states that, following implementation of the Proposals, the annual running costs of CMHYTL will not be materially different from those currently paid by the Company.

Additionally, for Shareholders who are liable to stamp duty or SDRT when purchasing Shares, such taxation would not be due when purchasing CMHYTL Shares.

### **IMPACT OF THE PROPOSALS ON SHAREHOLDERS**

**If the Proposals are approved and implemented, the Company's assets will be transferred to CMHYTL and Shareholders will receive one CMHYTL Share for each Share held on the Record Date.** Shareholders will receive a Special Dividend from the Company and, following the Scheme becoming effective, will receive future dividends from CMHYTL. Further information on dividends is given below.

Save for UK individuals who hold (or are deemed to hold) at least 10 per cent. of CMHYTL's Shares and small companies, as defined in section 931S Corporation Tax Act 2009, under current legislation the UK tax treatment of dividends received from CMHYTL will be the same as the UK tax treatment of dividends received from the Company. All CMHYTL Shareholders will benefit from greater distributions compared to those they would have received in future if they were to remain invested only in the Company, which is tax resident in the UK. This is in consequence of CMHYTL being zero-rated for tax in Jersey and, accordingly, not being liable to any Jersey tax on its income or gains.

For further details of the tax position of CMHYTL please refer to Part V of the Prospectus which accompanies this Circular.

Further guidance is given in Part IV on the tax applicable to certain dividends received from the Company and as compared to certain dividends received from CMHYTL. **However, the information is given by way of general guidance only and does not constitute legal or tax advice to any Shareholders. If you are in doubt about your tax position or the impact of the Proposals you should consult your own professional adviser.**

## **SUMMARY OF THE SCHEME**

In order to implement the Proposals your approval is sought to implement a scheme of reconstruction whereby the Company will be placed into members' voluntary liquidation. As part of the liquidation, after provision has been made for the Liquidation Fund required to discharge its liabilities (including contingent liabilities) and the costs incurred by the Company in relation to the Proposals as referred to below, the Company's investments and other assets will be transferred *in specie*, in accordance with the Transfer Agreement, to CMHYTL.

Shareholders will then receive one CMHYTL Share for every Share held by them. CMHYTL's investments will be managed by the Investment Manager, the Company's existing investment manager, on substantially the same terms as the Company is currently managed and the CMHYTL Shares will be listed on the Official List with a premium listing and traded on the main market of the London Stock Exchange in the same way that the Shares are currently listed and traded.

Further details regarding these arrangements are set out in Part II of this document.

## **DIVIDENDS AND ANNUAL REPORT AND ACCOUNTS**

On 17 January 2012, the Directors declared an Interim Dividend of 2.5 pence per Share in respect of the quarterly period ended on 31 December 2011 which the Directors intend to pay to Shareholders on the register at 6.00 p.m. on 27 January 2012. The Shares went ex-dividend on 25 January 2012 and the Interim Dividend is scheduled to be paid on 24 February 2012.

On 22 February 2012, the Directors declared a Special Dividend of 2.4 pence per Share which the Directors intend to pay to Shareholders on the register at 6.00 p.m. on 9 March 2012. The Shares will go ex-dividend on 7 March 2012 and the Special Dividend is scheduled to be paid on 28 March 2012.

In the Prospectus the board of CMHYTL states that for the period from Admission to 31 December 2012, on the basis of current market conditions, it will target a dividend of 7.6 pence per CMHYTL Share which, together with the Special Dividend to be paid by the Company, would represent total dividends of 10 pence per share in respect of the 12 months to 31 December 2012. This is a target dividend level which is based on certain assumptions and does not constitute a profit forecast. There can be no guarantee that the target dividend level will be achieved.

The Prospectus states that, the board of CMHYTL intends to pay quarterly dividends in February, May, August and November each year with the first such dividend to be paid in August 2012.

The Directors have approved the Company's annual report and accounts covering the financial year to 31 December 2011 and they were published on 22 February 2012. A copy of the Company's annual report and accounts will be sent to Shareholders shortly following publication of this document.

The Prospectus further states that CMHYTL's first accounting period will cover the period up to and including 31 December 2012 and that in its first annual report and accounts CMHYTL intends to include information relating to the Company for the period from 1 January 2012 until the Effective Date. That information will not be audited but will mean that Shareholders have a complete financial history for the Company and CMHYTL.

## **CITY MERCHANTS HIGH YIELD TRUST LIMITED**

The following information about CMHYTL has been reproduced from the Prospectus and sets out the key features of CMHYTL of which Shareholders should be aware when making a decision regarding the Proposals.

### ***Investment objective and policies***

CMHYTL will have the same investment objective as the Company, which is to seek to obtain both high income and capital growth from investments predominantly in high yielding fixed-interest securities. CMHYTL will seek 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 will also seek to enhance total returns through capital appreciation generated by investments which have equity-related characteristics.

CMHYTL will have the same investment policy as the Company. It will be actively managed and will seek to ensure that its portfolio is diversified, having regard to the nature and type of securities

(including duration, credit rating, performance and risk measures and liquidity) and the geographic and sector composition of its portfolio. CMHYTL may hold both illiquid securities (for example, securities where trading volumes are relatively low and unlisted securities) and concentrated positions (for example, where a high proportion of CMHYTL's total assets is comprised of a relatively small number of investments).

CMHYTL will adopt the same investment limits as the Company as follows:

- CMHYTL may invest in fixed-interest securities, including but not restricted to preference shares, loan stocks (convertible and redeemable), corporate bonds and government stocks, up to 100 per cent. of total assets;
- investments in equities may be made up to an aggregate limit of 20 per cent. of total assets at the time a new investment is made;
- the aggregate value of holdings of shares and securities in a single issuer or company, including a listed investment company or trust, will not exceed 15 per cent. of the value of CMHYTL's investments at the time of investment; and
- investments in unlisted investments will not exceed 10 per cent. of CMHYTL's total assets for individual holdings and 25 per cent. in aggregate of total assets at the time a new investment is made.

CMHYTL may enter into derivative transactions (including options, futures and contracts for difference, credit derivatives and interest rate swaps) for the purposes of efficient portfolio management. CMHYTL will not enter into derivative transactions for speculative purposes. CMHYTL may hedge against exposure to changes in currency rates to the full extent of such exposure.

CMHYTL's gearing policy will be determined by its board. The level of gearing may be varied from time to time in light of prevailing conditions subject to a maximum of 30 per cent. of CMHYTL's total assets from time to time.

#### ***Board composition***

The board of CMHYTL will be comprised of Clive Nicholson and Winifred Robbins, who are currently directors of the Company, and Philip Austin, John Boothman and Philip Taylor who are Jersey resident (and who are not directors of the Company). These changes to the Board result from the requirement for CMHYTL to have a majority of non-UK resident directors. Further details of the board members of CMHYTL are set out in Part III of the Prospectus.

Advice was obtained from Stephenson & Co, a specialist agency, to ensure that the composition of the board of CMHYTL reflects an appropriate range of skills and experience while also providing a balance between the requirement for offshore directors to be appointed and the Board's wish to provide continuity. All of the directors will act in a non-executive capacity and are independent of the Investment Manager.

#### ***Investment Manager and other service providers***

As stated above, the Company's existing investment manager, Invesco Asset Management Limited, will be appointed to act as investment manager of CMHYTL on substantially the same terms, including as to fees, as those on which it is currently engaged with the Company. The Investment Manager will also provide certain administration services to CMHYTL. The current investment management and administration agreements between the Company and the Investment Manager will be terminated on the Scheme becoming effective.

CMHYTL has appointed R&H Fund Services (Jersey) Limited as its company secretary and administrator in Jersey. The Bank of New York Mellon, the Company's existing custodian, will be appointed as custodian to CMHYTL and Capita Registrars (Jersey) Limited has been appointed as its registrars.

Further details of the agreements between CMHYTL and its service providers are set out in Part V of the Prospectus.

#### ***Regulatory and corporate governance impact***

CMHYTL will be subject to the Listing Rules (in the same way that the Company is at present) and in addition will be subject to regulation by the JFSC. The City Code will apply to CMHYTL from Admission in the same way as it applies to the Company. Consistent with the approach currently

taken by the Company, CMHYTL will also comply with the UK Corporate Governance Code and the AIC Code so far as is possible given CMHYTL's size and nature of business. This approach is in line with the statement of support issued by the JFSC recommending the adoption of the AIC Code by Jersey-domiciled investment companies.

#### ***Share issue and repurchase authorities***

The directors of CMHYTL will have authority to allot further CMHYTL Shares following Admission. Further issues of CMHYTL Shares will only be made if the directors of CMHYTL determine such issues to be in the best interests of CMHYTL Shareholders and CMHYTL as a whole and such CMHYTL Shares will only be issued at prices which are not less than the then prevailing net asset value per CMHYTL Share (as estimated by the directors of CMHYTL).

There are no provisions of Jersey law which confer rights of pre-emption in respect of the allotment of shares, or require shareholder approval for issues of shares. CMHYTL's articles of association, however, contain pre-emption rights in relation to allotments of CMHYTL's Shares for cash. Pursuant to a special resolution of the subscribers to CMHYTL's memorandum of association dated 22 February 2012, it was resolved to disapply such pre-emption rights in relation to a number of CMHYTL Shares equal to 10 per cent. of the CMHYTL Shares in issue immediately following Admission for a period concluding immediately prior to the annual general meeting of CMHYTL to be held in 2013.

Pursuant to a written special resolution of the subscribers to CMHYTL's memorandum of association dated 22 February 2012, the directors of CMHYTL have been granted general authority to purchase in the market up to 14.99 per cent. of the CMHYTL Shares in issue immediately following Admission at a price not exceeding the then prevailing net asset value per CMHYTL Share as at the time of purchase.

Pursuant to this authority and subject to Article 57 of the Companies (Jersey) Law 1991 (as amended) and at the discretion of the directors of CMHYTL, CMHYTL may purchase CMHYTL Shares in the market on an ongoing basis with a view to addressing any imbalance between the supply of and demand for CMHYTL Shares, thereby increasing the net asset value per CMHYTL Share and assisting in controlling any discount to net asset value per CMHYTL Share in relation to the price at which the CMHYTL Shares may be trading.

Further details are set out in Part I of the Prospectus.

#### ***ISA, SIPP and SSAS investors***

CMHYTL Shares will be eligible for inclusion in the stocks and shares component of an ISA. CMHYTL Shares will also qualify as an investment that may be held in a SIPP or SSAS. Accordingly, where existing Shares are held in an ISA, SIPP or SSAS, CMHYTL Shares obtained pursuant to the Scheme in respect of those Shares can be retained (subject to the specific terms applicable to the relevant ISA, SIPP or SSAS) within the ISA, SIPP or SSAS.

#### **COSTS OF IMPLEMENTATION OF THE PROPOSALS<sup>1</sup>**

The costs and expenses relating to the Proposals to be paid by the Company, including legal and other professional costs, additional Directors' fees, the costs of printing this document and the costs relating to the liquidation of the Company (excluding £50,000 retained by the Liquidators in respect of contingent and unknown liabilities) are estimated to amount to £335,000 including VAT. In recognition of the additional work undertaken on behalf of the Company in connection with the Proposals, the Directors will receive additional fees equal to one quarter of their current respective annual remuneration.

The Prospectus states that a further £515,000 is estimated to be payable in connection with the launch of CMHYTL. This amount (which is not subject to VAT as CMHYTL is incorporated and registered in Jersey) will be payable by CMHYTL and will be provided for upon its launch.

#### **OVERSEAS AND DISSENTING SHAREHOLDERS**

Subject to certain exceptions, Overseas Shareholders who have registered addresses in Restricted Jurisdictions will not be issued CMHYTL Shares pursuant to the scheme. Such Overseas Shareholders

<sup>1</sup> These costs do not include the write down of the deferred tax asset, detailed more fully under 'Background' on pages 4 and 5, as the write down is inevitable and not a consequence of the Proposals.



will have their interests purchased by the Liquidators at a price equal to their respective entitlements under the Scheme.

Shareholders who do not vote in favour of the special resolution at the First EGM can express their dissent from the Scheme in writing to the Liquidators at the Company's registered office within seven days after the passing of the special resolution. Any such dissenting Shareholder may require the Liquidators either, at the Liquidators' option, to abstain from carrying the resolution into effect or to purchase such Shareholder's interests at a price to be agreed between them or determined by arbitration.

It is proposed that, at the First EGM, the articles of association of the Company will be amended to create a new class of shares to facilitate the treatment of such Overseas Shareholders and dissentients under the Scheme.

For further details on the treatment of Overseas and Dissident Shareholders please refer to the sections headed "Overseas Shareholders" and "Dissenting Shareholders" in Part II of this document.

## **TAXATION**

A summary of the tax consequences of the Proposals for Shareholders is set out in Part IV of this document.

## **FURTHER INFORMATION**

The Proposals are described in more detail in Part II and the terms of the Scheme are set out in Part III.

A copy of the Prospectus is enclosed with this Circular. Shareholders should read the entirety of this Circular and the Prospectus and in particular the section headed "Risk Factors Relating to the Proposals" in Part II of this Circular.

The Proposals are conditional on the resolutions to be proposed at the EGMs being passed and on the other conditions referred to in paragraph 5 of Part III of this document.

## **EXTRAORDINARY GENERAL MEETINGS**

The Proposals require the approval of Shareholders. Notices convening the requisite EGMs are set out at the end of this document.

### **First EGM**

The First EGM will be held at 12.30 p.m. on 22 March 2012. A special resolution will be proposed at that meeting:

- as required by the Act, to amend the Company's Articles of Association for the purposes of the Scheme; and
- as required by the Insolvency Act, to approve the Scheme and to authorise its implementation by the Liquidators.

The Scheme will not in any event become effective until the Resolution to be proposed at the Second EGM has been passed.

### **Second EGM**

The Second EGM will be held at 12.30 p.m. on 30 March 2012. A special resolution will be proposed at that meeting:

- to wind up the Company voluntarily and appoint the Liquidators; and
- for the purpose of authorising the Liquidators to exercise certain powers for which the express sanction of Shareholders is required under the Insolvency Act, such as paying classes of creditors in full.

This special resolution is conditional, *inter alia*, on the special resolution to be proposed at the First EGM having been passed prior to the Second EGM. The Scheme will become effective on the passing of the special resolution at the Second EGM if the special resolution to be proposed at the First EGM has been passed and the other conditions of the Scheme are satisfied prior to the Second EGM.

The majority required for the passing of each of the Resolutions to be put at the EGMs is not less than three quarters of the votes cast in person or by proxy. On a show of hands each Shareholder present in person or by a duly authorised representative will have one vote and on a poll each Shareholder present in person or by proxy will have one vote for each Share held. The quorum at the EGMs is any two Shareholders present in person or by proxy and entitled to vote.

#### **ACTION TO BE TAKEN**

**Before taking any action, you are recommended to read the further information set out in this document and in the accompanying Prospectus.**

**If you are in any doubt as to the action you should take, please consult your independent professional adviser immediately.**

Shareholders will find enclosed with this document:

- a white Form of Proxy for use at the First EGM; and
- a blue Form of Proxy for use at the Second EGM.

Please complete these Forms of Proxy as soon as practicable and return them by post to Capita Registrars, PXS, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU as soon as possible and in any event so as to be received not later than 48 hours prior to the time of the relevant EGM. The completion and return of a Form of Proxy will not prevent a Shareholder from attending the relevant EGM(s) and voting in person if he or she wishes to do so.

Participants holding shares through the Invesco Perpetual Investment Trust ISA and Savings Scheme should refer to the letter accompanying this document explaining the action to be taken by them.

#### **RECOMMENDATION**

**The Directors have received financial advice from Winterflood Securities in relation to the Proposals and, in giving that advice, Winterflood Securities has relied on the Directors' commercial assessment of the Proposals.**

**The Board considers the Proposals to be in the best interests of the Company and of the Shareholders as a whole. Accordingly the Board unanimously recommends that Shareholders vote in favour of each of the Resolutions as the Directors intend to do in respect of their own beneficial holdings of 217,310 Shares amounting, in aggregate, to Shares, representing approximately 0.3 per cent. of the Shares in issue as at 21 February 2012, the latest practicable date prior to the publication of this Circular.**

Yours faithfully

**Clive Nicholson**  
*Chairman*

## PART II

### FURTHER DETAILS OF THE PROPOSALS

#### MECHANICS OF THE PROPOSALS

Subject, *inter alia*, to the passing of the requisite resolutions at the EGMs, the Company will be placed into members' voluntary liquidation and the Scheme will take effect. However, before any assets are transferred to CMHYTL, the Liquidators will set aside an amount of cash and other assets in a Liquidation Fund which they consider sufficient to provide for all liabilities (including tax, contingent and unknown liabilities and the costs incurred by, or in respect of, the Company and the Liquidators in relation to the Proposals) of the Company, or which it has agreed to pay, to the extent not previously paid. The amount that will be retained in respect of contingent and unknown liabilities is currently expected to be £50,000.

After provision has been made for the Liquidation Fund, the remainder of the Company's assets will then be transferred to CMHYTL. In consideration for such transfers, CMHYTL Shares will be issued to Shareholders. Shareholders on the Company's register of members at the Record Date will receive one CMHYTL Share for every Share held.

To the extent that any part of the Liquidation Fund is not subsequently required, it will be paid to CMHYTL without any further shares being issued in respect of such amounts.

#### DEALINGS IN SHARES

The last date for dealings on the London Stock Exchange on a normal rolling three day settlement basis will be 23 March 2012. As from 26 March 2012, dealings should be for cash settlement only. Application will be made to the FSA and the London Stock Exchange for the listing of the Shares to be amended to reflect the reclassification of certain Shares as D Ordinary Shares. It is expected that such amendment will become effective and that dealings in the Reclassified Shares will commence with effect from 8.00 a.m. on 29 March 2012. Documents of title will not be issued, nor will CREST accounts be credited, in respect of the D Ordinary Shares. The Company has applied to the FSA to suspend the listing of the Reclassified Shares with effect from 7.30 a.m. on 30 March 2012. It is expected that dealings in CMHYTL Shares will commence at 8.00 a.m. on 2 April 2012.

If Shareholders dispose of their Shares otherwise than through the London Stock Exchange, they must make their own arrangements with the other parties concerned as regards entitlements to CMHYTL Shares to be issued under the Scheme.

#### SETTLEMENT AND DEALINGS IN CMHYTL SHARES

The Proposals are conditional on the FSA agreeing to admit the CMHYTL Shares to be issued pursuant to the Scheme to the Official List with a premium listing and the London Stock Exchange admitting such shares to trading on its main market.

Applications have been made to the FSA for the CMHYTL Shares to be issued under the Scheme to be admitted to the Official List with a premium listing and to the London Stock Exchange for such shares to be admitted to trading on its main market. If the Scheme becomes effective, it is expected that the CMHYTL Shares issued under the Proposals will be admitted to the Official List with a premium listing on, and that the first day of dealings in such shares on the main market of the London Stock Exchange will be 2 April 2012.

CMHYTL Shares will be issued in registered form and will be credited as fully paid. CMHYTL Shares may be held in certificated or uncertificated form. Those Shareholders who hold their Shares in certificated form at the Record Date will receive their CMHYTL Shares in certificated form. CMHYTL will procure that Euroclear is instructed, on the date on which admission of the CMHYTL Shares to the Official List with a premium listing becomes effective, to credit the appropriate stock accounts in CREST of the Shareholders concerned with their respective entitlements to CMHYTL Shares in uncertificated form. It is expected that share certificates in respect of such CMHYTL Shares will be despatched to the Shareholders entitled thereto by 16 April 2012.

Although Shareholders who hold their Shares in uncertificated form at the Record Date will receive their CMHYTL Shares in uncertificated form, CMHYTL reserves the right to issue such shares in certificated form (which, in normal circumstances, is only likely to be exercised in the event of an interruption, failure or breakdown of CREST or of the facilities or system operated by CMHYTL's registrar in connection with CREST).

The Prospectus states that CMHYTL Shares will rank *pari passu* with each other in all respects.

After the Scheme has become effective, certificates in respect of Shares will cease to be of value for any purpose.

All mandates in force at the close of business on the Record Date relating to payment of dividends on Shares and all instructions given relating to notices and communications will, unless and until varied or revoked, be deemed to continue in force in relation to the CMHYTL Shares.

### **OVERSEAS SHAREHOLDERS**

This document and the notices of Extraordinary General Meetings at the end of this document have been prepared for the purpose of complying with English law, the City Code and the Listing Rules and information disclosed may not be the same as that which would have been prepared in accordance with the laws of jurisdictions outside England. The distribution of this document in jurisdictions outside the United Kingdom may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

Save where the Directors so determine in cases where they are satisfied that there would be no violation of local securities laws or regulations, Overseas Shareholders who have registered addresses in a Restricted Jurisdiction will not be issued CMHYTL Shares pursuant to the Scheme. Such Overseas Shareholders will have their interests purchased by the Liquidators at a price equal to their respective entitlements under the Scheme. It is proposed that, at the First EGM, the articles of association will be amended to create a new class of shares to facilitate the treatment of Overseas Shareholders with registered addresses in Restricted Jurisdictions. The reclassification of such Overseas Shareholders Shares will take effect at 8.00 a.m. on 29 March 2012.

Subject to certain exceptions, this document does not constitute an offer of CMHYTL Shares to Shareholders with a registered address in, or resident in, a Restricted Jurisdiction or who are US Persons.

No person receiving a copy of this document and/or the accompanying documents in a Restricted Jurisdiction or who is, or is acting for the account or benefit of, a US Person may treat the same as constituting an invitation or offer to him, nor should he in any event use the Forms of Proxy or otherwise vote at either EGM.

The CMHYTL Shares have not been and will not be registered under the US Securities Act or under the applicable securities laws of any state or other jurisdiction of the United States. The CMHYTL Shares may not be offered, sold, resold, pledged or otherwise transferred, directly or indirectly, within the United States or to, or for the account or benefit of, any US Person, except pursuant to any exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States. CMYHTL has not been and will not be registered under the US Investment Company Act of 1940, as amended.

### **SHAREHOLDER REPRESENTATIONS**

The CMHYTL Shares are being offered and sold outside the US to non-US persons in reliance on the exemption from registration provided by Regulation S under the US Securities Act. Subject to certain exceptions, any person who submits a Form of Proxy for either EGM will be deemed to have represented and warranted, by accepting delivery of this document or submitting a Form of Proxy, that they are not, and at the time of submitting the Form of Proxy they will not be, (a) in the United States, (b) acting on a non-discretionary basis on behalf of, or for the account or benefit of, a person in the United States, (c) a US Person or (c) acting for the account or benefit of a US Person. Any person voting in person at either EGM will be deemed to have represented that they are not (i) acting on a non-discretionary basis on behalf of, or for the account or benefit of, a person in the United States, (ii) a US Person or (iii) acting for the account or benefit of, a US Person.

### **DISSENTING SHAREHOLDERS**

Shareholders who do not vote in favour of the special resolution to approve the Scheme at the First EGM are able to express their dissent from the Scheme in writing to the Liquidators at the Company's registered office within seven days after the passing of the special resolution. Any such dissenting Shareholder may require the Liquidators either, at the Liquidators' option, to abstain from

carrying the resolution into effect or to purchase such Shareholder's interests at a price to be agreed between them or determined by arbitration. It is proposed that, at the First EGM, the articles of association of the Company will be amended to create a new class of shares to facilitate the treatment of dissentients under the Scheme.

#### **RISK FACTORS RELATING TO THE PROPOSALS**

Implementation of the Scheme is conditional upon the Resolutions at the EGMs being passed. In the event that these conditions are not satisfied, the Scheme will not be implemented and the Company will remain liable for any costs incurred in relation to the Scheme (including any incurred on behalf of CMHYTL that would have been paid by it after the Effective Date).

The Company will need to ensure that it remains an investment trust (as defined in section 1158 of the Corporation Tax Act 2010) throughout the whole of the accounting period which includes the date on which the Company's assets are transferred to CMHYTL pursuant to the Transfer Agreement. If investment trust status is not maintained, the transfer of the Company's assets by the liquidators to CMHYTL will give rise to chargeable gains or allowable losses for the purposes of the UK taxation of chargeable gains. The Directors have been advised that the manner in which it is proposed to carry out the Company's liquidation and to implement the Proposals is such that the Company should remain eligible to obtain approval as an investment trust for the accounting period which includes the date on which the Company's assets are transferred to CMHYTL pursuant to the Transfer Agreement and, accordingly, the transfer of the Company's assets under the Proposals should not give rise to a liability to UK taxation of chargeable gains for the Company.

#### **FURTHER INFORMATION**

Your attention is drawn to the further information in Parts III to V and the notices of Extraordinary General Meetings at the end of this document.

**All documents and remittances despatched to or from Shareholders or their appointed agents in connection with the Scheme will be despatched at the Shareholders' own risk.**

## **PART III**

### **THE SCHEME**

#### **1. TRANSFER AGREEMENT AND THE ISSUE OF CMHYTL SHARES**

- 1.1 On the Effective Date, the Liquidators shall, and shall procure that the Company shall, enter into and implement the Transfer Agreement whereby the Liquidators shall procure the transfer of the Company's assets to CMHYTL in exchange for the issue of CMHYTL Shares to Shareholders on a one-for-one basis.
- 1.2 The CMHYTL Shares to be issued pursuant to this paragraph 1 shall be allotted, credited as fully paid, to the Liquidators (as nominees for the Shareholders entitled thereto) as soon as practicable after the transfer to CMHYTL of the Company's assets, whereupon the Liquidators shall be entitled to renounce the relevant CMHYTL Shares to the relevant Shareholders entitled thereto and CMHYTL shall issue such CMHYTL Shares to such Shareholders.
- 1.3 CMHYTL shall:
  - (a) in the case of CMHYTL Shares issued in certificated form, arrange for the despatch of certificates for the CMHYTL Shares issued under this Scheme by 16 April 2012 to the Shareholders entitled thereto at their respective addresses in the Company's register of members (and, in the case of joint holders, to the address of the first-named) at the risk of the persons entitled thereto; and
  - (b) in the case of CMHYTL Shares issued in uncertificated form, procure that Euroclear is instructed on the first business day following the Effective Date (or as soon as practicable thereafter) to credit the appropriate stock accounts in CREST of the Shareholders entitled thereto with their respective entitlements to CMHYTL Shares issued under this Scheme.

#### **2. APPLICATION OF LIQUIDATION FUND**

Upon the winding up of the Company, but before any assets are transferred to CMHYTL, the Liquidators shall retain, from the assets attributable to the Shares, the Liquidation Fund. The Liquidation Fund shall be applied by the Liquidators in discharging the liabilities of the Company (including tax, contingent and unknown liabilities and the costs incurred by, or in respect of, the Company and the Liquidators in relation to the Proposals, which will include costs to be paid to any Shareholders who validly dissent under the Scheme and to certain Overseas Shareholders with registered addresses in Restricted Jurisdictions). The amount to be retained in respect of contingent and unknown liabilities is currently expected to be £50,000. If there shall be any balance after discharging such liabilities, the Liquidators shall take all practicable steps, as and when the Liquidators shall think fit (having regard to the requirement that the Company remains an investment trust (as defined in section 1158 of the Corporation Tax Act 2010) throughout the accounting period commencing on liquidation), to realise the Company's investments (if any) remaining in the Liquidation Fund and in due course pay the remaining balance to CMHYTL without any further CMHYTL Shares being issued in respect of such amounts.

#### **3. MODIFICATIONS**

The provisions of this Scheme shall have effect subject to such non-material modifications or additions as the parties to the Transfer Agreement may from time to time approve in writing.

#### **4. LIQUIDATORS' LIABILITY**

Nothing in this Scheme or in any document executed under or in connection with this Scheme shall impose any personal liability on the Liquidators save for any liability arising out of any negligence, breach of duty or wilful default by the Liquidators in the performance of their duties and this shall, for the avoidance of doubt, exclude any such liability for any action taken by the Liquidators in accordance with the terms of this Scheme or the Transfer Agreement.

#### **5. CONDITIONS**

- 5.1 This Scheme is conditional upon:
  - (a) the passing of the resolutions to be proposed at the EGMs; and
  - (b) the Directors not having exercised their right, in accordance with paragraph 5.2 below, not to proceed with this Scheme.

- 5.2 If, within seven days of the First EGM, any one or more Shareholders validly exercise their rights under section 111(2) of the Insolvency Act in respect of more than five per cent of the issued Shares, the Directors may, but shall not be obliged to, resolve not to proceed with this Scheme.
- 5.3 Unless the conditions set out in paragraph 5.1 above have been satisfied or, to the extent permitted, waived at or before the time of the passing of the special resolution for winding up the Company to be proposed at the Second EGM, this Scheme shall never become effective.
- 5.4 Subject to paragraph 5.1 above, this Scheme shall become effective on the date on which the special resolution for winding up the Company to be proposed at the Second EGM is passed.
- 5.5 If it shall become effective, this Scheme shall, subject to the rights of any Shareholders who have validly exercised their rights under section 111(2) of the Insolvency Act, be binding on all Shareholders and on all persons claiming through or under them.
- 5.6 Unless this Scheme shall have become effective on or before 30 April 2012, this Scheme shall never become effective.

## 6. **GOVERNING LAW**

This Scheme shall, in all respects, be governed by, and construed in accordance with, the laws of England.

## PART IV

### TAXATION

#### UK Taxation

*The following is a general summary of the view of the Company's as to the UK taxation treatment of the Company and of certain Shareholders in relation to the Proposals. It is based on existing law, including statutes, regulations, administrative rulings and court decisions, and what is understood to be current HM Revenue & Customs practice, all as at the date of this document. Future legislative, judicial or administrative changes or interpretations could alter or modify statements and conclusions set forth below and these changes or interpretations could be retroactive and could affect the tax consequences of the Proposals for Shareholders. This does not consider the consequences of the Proposals in any other country.*

*This summary provides general guidance only to persons who are resident, ordinarily resident and domiciled for tax purposes in the UK and who hold their Shares beneficially and as an investment. It does not apply to particular classes of Shareholder, such as Shareholders who are taxable in the UK on a remittance basis or who are subject to special tax rules such as banks, financial institutions, broker-dealers, persons subject to mark-to-market treatment, UK resident individuals who hold their Shares under a personal equity plan or an ISA, persons who receive their Shares by exercising employee share options or otherwise as compensation or persons who have acquired or who are deemed to have acquired their Shares by virtue of any office or employment.*

*This summary is not intended to provide specific advice and no action should be taken or omitted to be taken in reliance upon it. If you are in any doubt about your taxation position or if you are ordinarily resident or domiciled outside the UK or resident or otherwise subject to taxation in a jurisdiction outside the UK, you should consult your own professional advisers immediately.*

#### *The Company*

The Company has obtained approval as an investment trust under section 1158 of the Corporation Tax Act 2010 for the year ended 31 December 2010. The Directors consider that the Company has conducted its affairs since that date, and will continue to do so, to enable it to be so approved for the accounting period ending on 31 December 2011 and the accounting period commencing on 1 January 2012 and ending with the date of the Company's liquidation. The Directors have been advised that the manner in which it is proposed to carry out the Company's liquidation and to implement the Proposals is such that the Company will remain eligible for investment trust status for the accounting period which includes the date on which the Company's assets are transferred to CMHYTL pursuant to the Transfer Agreement and, accordingly, the transfer of the Company's assets under the Proposals will not give rise to a liability to UK taxation of chargeable gains for the Company.

#### *Shareholders*

On the issue of CMHYTL Shares to a Shareholder, such Shareholder, if it does not hold more than five per cent. of any class of Shares in the Company (and it should be noted that if there are dissentient shareholders this test will be applied after the reorganisation pursuant to the Scheme), will not be regarded as disposing of his or her Shares for the purposes of UK taxation of chargeable gains. Instead, for those purposes, the CMHYTL Shares will be treated as the same asset as the Shares in respect of which they were acquired; accordingly, the Shareholder will be regarded as having acquired those CMHYTL Shares at the same time and for the same aggregate base cost as his or her holding of Shares. Shareholders who hold more than five per cent of the Shares are likely to be regarded as disposing of their shares for the purpose of UK taxation of chargeable gains.

Any realisation of CMHYTL Shares will constitute (in the absence of special circumstances such as a realisation as part of a future re-organisation of CMHYTL) a disposal for the purposes of UK taxation of chargeable gains and may give rise to a liability to UK taxation of chargeable gains depending on the particular circumstances of the Shareholder concerned.

#### **Applicable rates of UK taxation**

Save for UK individuals who hold (or are deemed to hold) at least 10 per cent. of CMHYTL's Shares (who will not be entitled to any tax credit) and small companies, as defined in section 931S Corporation Tax Act 2009 (see below), under current legislation and HMRC practice, the UK tax



treatment of dividends received from CMHYTL will be the same as the UK tax treatment of dividends received from the Company and all CMHYTL Shareholders will benefit from greater distributions compared to those they would have received in future if they were to remain invested only in the Company, which is tax resident in the UK. This is in consequence of CMHYTL being zero-rated for tax in Jersey and, accordingly, not being liable to any Jersey tax on its income or gains.

For further details of the tax position of CMHYTL, please see Part V of the Prospectus which accompanies this Circular.

***Small Company Shareholders***

Shareholders which are small companies, as defined in section 931S Corporation Tax Act 2009, should note that they will be liable to corporation tax on their dividends from CMHYTL whereas dividends they receive from the Company are exempt from corporation tax.

**PART V**  
**GENERAL INFORMATION**

**SHARE CAPITAL**

As at 21 February 2012 (being the latest practicable date prior to the publication of this document), the issued share capital of the Company was as follows:

|        | <b>Issued and Fully Paid</b> |             |
|--------|------------------------------|-------------|
|        | <b>No.</b>                   | <b>£</b>    |
| Shares | 72,799,105                   | 1,445,982.1 |

As at 21 February 2012 (being the latest practicable date prior to the publication of this document), no share or loan capital of the Company was under option or had been agreed, conditionally or unconditionally, to be put under option.

**DIRECTORS AND THEIR INTERESTS**

The names and business address of the Directors, all of whom are non-executive, are as follows:

Clive Nicholson  
Christopher FitzGerald  
Richard King  
Kenneth MacLennan  
Winifred Robbins

all of 30 Finsbury Square, London EC2A 1AG (the registered office of the Company).

As at 21 February 2012 (being the latest practicable date prior to publication of this document), the interests (whether beneficial or non-beneficial) of the Directors (including their immediate families) and persons connected with the Directors (within the meaning of section 252 of the Companies Act) in the Shares were as follows:

| <b>Director</b>        | <b>No. of Shares</b> | <b>Per cent. of<br/>issued ordinary<br/>share capital</b> |
|------------------------|----------------------|---|
| Clive Nicholson        | 49,500               | 0.07  |
| Christopher FitzGerald | 12,000               | 0.02  |
| Richard King           | 43,179               | 0.06  |
| Kenneth MacLennan      | 50,000               | 0.07  |
| Winifred Robbins       | 62,631               | 0.09  |

There are no service agreements in existence between the Company and any of the Directors, nor are any such contracts proposed.

No Director is or has been interested in any transaction which is or was unusual in its nature or conditions or significant to the business of the Company and which was effected by the Company in the current financial year or which was effected in an earlier financial year and remains in any respect outstanding or unperformed.

## **SUBSTANTIAL SHARE INTERESTS**

As at the close of business on 21 February 2012 (being the latest practicable date prior to publication of this document), the Directors were aware of the following persons who, directly or indirectly are interested in three per cent. or more of the Company's issued share capital and will be interested in three per cent. or more of CMHYTL's issued share capital immediately following Admission.

| <b>Name of Shareholder</b>            | <b>No. of Ordinary Shares</b> | <b>Per cent. of issued ordinary share capital</b> |
|---------------------------------------|-------------------------------|---|
| Invesco Perpetual                     | 7,101,392                     | 9.75  |
| Charles Stanley, stockbrokers         | 4,270,253                     | 5.87  |
| Brewin Dolphin, stockbrokers          | 3,774,275                     | 5.18  |
| Alliance Trust Savings                | 3,610,334                     | 4.96  |
| Legal & General Investment Management | 2,537,124                     | 3.49  |
| Rathbones                             | 2,503,476                     | 3.44  |

## **TRANSFER AGREEMENT**

The Company intends, in connection with the Scheme, to enter into the Transfer Agreement on or about the Effective Date pursuant to which the assets of the Company, after provision has been made for the Liquidation Fund, will be transferred to CMHYTL. Each of the parties to the Transfer Agreement has undertaken to enter into that agreement and to use its or his reasonable endeavours to implement the Scheme, provided that the conditions referred to in paragraph 5 of Part III of this document have been fulfilled on or prior to 30 April 2012.

## **GENERAL**

Statutory accounts of the Company for the three financial years ended 31 December 2011, in respect of which the Company's auditors, Ernst & Young LLP made unqualified reports under section 235 of the Companies Act 1985 and section 495 of the Act, have been delivered to the Registrar of Companies and such reports did not contain any statements under section 237(2) or (3) of the Companies Act 1985 or section 498(2) or (3) of the Act.

Since 31 December 2011 (being the end of the last financial period of the Company for which audited financial statements have been published):

- (a) no share or loan capital of the Company has been issued for cash or otherwise or is proposed to be issued;
- (b) no commission, discount, brokerage or other special terms have been granted by the Company in connection with the issue or sale of such capital; and
- (c) the Company has made no market purchases (within the meaning contained in section 693 of the Act) of Shares.

The Company is not, nor has been, engaged in any legal or arbitration proceedings which may have, or have had during the 12 months preceding the date of this document, a significant effect on the financial position of the Company nor, so far as the Company is aware, are any such proceedings pending or threatened against the Company.

Winterflood Securities has given and not withdrawn its written consent to the issue of this document and the inclusion of its name and the references to it in this document in the form and context in which they appear.

Each of the Liquidators and Stephenson & Co has given and not withdrawn his written consent to the issue of this document with the inclusion of his name and the references to him in the form and context in which they appear.

## **DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours on any day (Saturdays, Sundays and public holidays excepted) from the date of this document until the Effective Date at the offices of Ashurst, Broadwalk House, 5 Appold Street, London EC2A 2HA and also at the registered office of the Company:

- (a) the memorandum and articles of association of the Company and the articles of association as proposed to be amended by the Resolutions;

- (b) the Transfer Agreement;
- (c) the Prospectus;
- (d) the audited report and accounts of the Company for the three financial years ended 31 December 2011;
- (e) this document;
- (f) the consents referred to above in this Part V;
- (g) the investment management agreement between the Company and Investment Manager; and
- (h) the administration agreement between the Company and the Investment Manager.

## PART VI

### DEFINITIONS

The following definitions apply throughout this document unless the context requires otherwise:

|   |   |
|---|---|
| <b>“Act”</b>  | the Companies Act 2006, as amended  |
| <b>“Admission”</b>  | admission of the CMHYTL Shares issued pursuant to the Scheme to the Official List with a premium listing and to trading on the main market of the London Stock Exchange   |
| <b>“AIC”</b>  | the Association of Investment Companies   |
| <b>“AIC Code”</b>   | the Code of Corporate Governance issued by the AIC  |
| <b>“Articles of Association” or “Articles”</b>              | the articles of association of the Company  |
| <b>“Board” or “Directors”</b>                               | the directors of the Company or, where the context permits, the board of directors of the Company (or any duly authorised committee of such board)  |
| <b>“business day”</b>                                       | any day which is not a Saturday, a Sunday or a bank or public holiday in England  |
| <b>“certificated” or “in certificated form”</b>             | a Share or a CMHYTL Share which is not in uncertificated form   |
| <b>“City Code”</b>  | the City Code on Takeovers and Mergers issued and administered by the Panel on Takeovers and Mergers  |
| <b>“CMHYTL”</b>   | City Merchants High Yield Trust Limited, a company incorporated in Jersey with registered number 109714   |
| <b>“CMHYTL Shares”</b>                                      | ordinary shares of no par value in the capital of CMHYTL  |
| <b>“Company”</b>  | City Merchants High Yield Trust plc, a company incorporated in England and Wales with registered number 02649592  |
| <b>“CREST”</b>  | the relevant system and computer system (as defined in CREST UK Regulations and the CREST Jersey Regulations respectively) in respect of which Euroclear is the Operator and approved operator (as defined in the CREST UK Regulations and CREST Jersey Regulations respectively) |
| <b>“CREST Jersey Regulations”</b>                           | the Companies (Uncertificated Securities) (Jersey) Order 1999   |
| <b>“CREST UK Regulations”</b>                               | the Uncertificated Securities Regulations 2001  |
| <b>“Custodian”</b>  | The Bank of New York Mellon   |
| <b>“D Ordinary Shares”</b>                                  | D ordinary shares of £0.02 pence each in the capital of the Company   |
| <b>“Effective Date”</b>                                     | the date on which the special resolution for the winding up of the Company to be proposed at the Second EGM is passed, when the Scheme shall become effective (which is expected to be 30 March 2012)   |
| <b>“EGMs”</b>   | the First EGM and/or the Second EGM, as the context requires  |
| <b>“Euroclear”</b>  | Euroclear UK & Ireland Limited  |
| <b>“First Extraordinary General Meeting” or “First EGM”</b> | the extraordinary general meeting of the Company to be held at 12.30 p.m. on 22 March 2012 or any adjournment of that meeting   |
| <b>“Form(s) of Direction”</b>                               | any form of direction sent to Savings Scheme Participants with this document in relation to the EGMs  |
| <b>“Form(s) of Proxy”</b>                                   | any form of proxy sent to Shareholders with this document for use at the EGMs   |
| <b>“FSA”</b>  | the Financial Services Authority  |
| <b>“FSMA”</b>   | The Financial Services and Markets Act 2000, as amended   |

|   |   |
|---|---|
| <b>“gearing”</b>  | the term applied to the effect of borrowings and prior charge share capital on assets that will increase the return on investment when the value of CMHYTL’s investments is rising but reduce the return when values are declining                    |
| <b>“Insolvency Act”</b>                                       | the Insolvency Act 1986, as amended   |
| <b>“Interim Dividend”</b>                                     | the interim dividend declared in respect of the quarterly period ended on 31 December 2011  |
| <b>“Investment Manager”</b>                                   | Invesco Asset Management Limited  |
| <b>“ISA”</b>  | Individual Savings Account  |
| <b>“JFSC”</b>   | the Jersey Financial Services Commission  |
| <b>“Liquidation Fund”</b>                                     | the liquidation fund to be retained by the Liquidators as provided in the paragraph entitled “Application of Liquidation Fund” in Part III of this document   |
| <b>“Liquidators”</b>  | the liquidator(s) for the time being of the Company (and being, initially, the persons appointed at the Second EGM), jointly and severally  |
| <b>“Listing Rules”</b>  | the rules and regulations made by the FSA under Part VI of FSMA, as amended from time to time   |
| <b>“London Stock Exchange”</b>                                | London Stock Exchange plc   |
| <b>“member account ID”</b>                                    | the identification code or number attached to any member account in CREST   |
| <b>“Net Asset Value” or “NAV”</b>                             | the total value of all the assets of the Company less its liabilities determined in accordance with the Company’s accounting policies   |
| <b>“Official List”</b>  | the official list of the Financial Services Authority   |
| <b>“Overseas Shareholders”</b>                                | Shareholders whose addresses, as entered in the Company’s register of members, are outside the UK   |
| <b>“Proposals”</b>  | the proposals for the reconstruction and voluntary winding up of the Company and the other matters described in this document to be approved at the EGMs, including the approval of the Scheme, the changes to the Articles and all ancillary matters |
| <b>“Prospectus”</b>   | the prospectus published by CMHYTL relating to the CMHYTL Shares to be issued pursuant to the Scheme  |
| <b>“recognised stock exchange”</b>                            | shall have the same meaning as in Section 285(1)(a) of the FSMA   |
| <b>“Reclassified Shares”</b>                                  | D Ordinary Shares and Shares, in each case following the reclassification of such shares for the purposes of the Scheme and pursuant to the resolution set out in the notice convening the First EGM taking effect in accordance with its terms       |
| <b>“Record Date”</b>  | 6.00 p.m. on 28 March 2012, or such other date as determined by the Directors being the record date for Shareholders to participate in the Scheme   |
| <b>“Register”</b>   | the register of members of the Company  |
| <b>“Registrar”</b>  | Capita Registrars Limited   |
| <b>“Resolutions”</b>  | the resolutions to be proposed at the EGMs  |
| <b>“Restricted Jurisdiction”</b>                              | New Zealand and the United States   |
| <b>“Scheme”</b>   | the scheme implementing the Proposals as set out in Part III of this document   |
| <b>“Second Extraordinary General Meeting” or “Second EGM”</b> | the extraordinary general meeting of the Company to be held at 12.30 p.m. on 30 March 2012 notice of which is set out at the end of this document, or any adjournment of that meeting   |

|   |   |
|---|---|
| <b>“Shares”</b>                                     | ordinary shares of £0.02 each in the capital of the Company   |
| <b>“SIPP”</b>                                       | a self-invested personal pension (as defined in the Personal Pension Schemes (Restriction on Discretion to Approve) (Permitted Instruments) Regulations 2001 (SI 2001 No. 117))   |
| <b>“SSAS”</b>                                       | a small self-administered scheme (as defined in the Retirement Benefits Schemes (Restriction on Discretion to Approve) (Small Self-administered Schemes) Regulations (SI 1991 No. 1614)   |
| <b>“Shareholders”</b>                               | holders of Shares   |
| <b>“Special Dividend”</b>                           | the special dividend to be paid by the Company on 29 March 2012   |
| <b>“Transfer Agreement”</b>                         | the agreement to be entered into pursuant to the Scheme between the Company, the Liquidators, the Investment Manager and CMHYTL providing for the transfer of the Company’s assets, after provision for the Liquidation Fund, to CMHYTL |
| <b>“uncertificated” or “in uncertificated form”</b> | recorded in the register of members of the Company or CMHYTL as being in uncertificated form in CREST and title to which, by virtue of the CREST UK Regulations and the CREST Jersey Regulations, may be transferred by means of CREST  |
| <b>“UK Corporate Governance Code”</b>               | the UK Code on corporate governance published by the Financial Reporting Council  |
| <b>“United States”, “USA” or “US”</b>               | the United States of America, its territories and possessions, any state of the United States and the District of Columbia  |
| <b>“US Person”</b>                                  | has the meaning set out in Rule 902(k) of Regulation S of the US Securities Act   |
| <b>“US Securities Act”</b>                          | the US Securities Act of 1933, as amended   |
| <b>“Winterflood Securities”</b>                     | Winterflood Securities Limited, acting through its division, Winterflood Investment Trusts  |

## NOTICE OF FIRST EXTRAORDINARY GENERAL MEETING

### CITY MERCHANTS HIGH YIELD TRUST PLC

(Incorporated in England and Wales, Registered No. 02649592)

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting of City Merchants High Yield Trust plc (the “**Company**”) will be held at 12.30 p.m. on 22 March 2012 at 30 Finsbury Square, London EC2A 1AG for the purpose of considering and, if thought fit, passing the following resolution as a special resolution:

#### SPECIAL RESOLUTION

THAT:

1. subject always to paragraph 2 of this resolution, with effect from such time as the directors specify (being not earlier than the expiry of the seven day period specified in section 111(2) of the Insolvency Act 1986 (as amended) in relation to the Scheme (as defined in the circular to the shareholders of the Company dated 23 February 2012 (the “**Circular**”)) (the “**Scheme**”):
  - (a) each ordinary share held by: (i) a shareholder who validly dissents, under section 111(2) of the Insolvency Act 1986 (as amended), from the Scheme; and (ii) save where the Directors determine otherwise in accordance with the criteria set out in the Circular, Overseas Shareholders with registered addresses in Restricted Jurisdictions, shall convert into (and be re-classified as) one “**D**” ordinary share of £0.02 (a “**D ordinary share**”) having the rights and being subject to the restrictions set out in the articles of association of the Company as amended pursuant to sub-paragraph (c) below;
  - (b) the existing certificates for the ordinary shares from which the D ordinary shares are derived shall remain in issue and shall henceforth represent such re-classified shares or, where such ordinary shares are in uncertificated form, the existing CREST account credits shall henceforth represent such re-classified shares; and
  - (c) the articles of association of the Company shall be amended by:
    - (i) inserting the following as a new article 3A:  
“Notwithstanding anything in these Articles to the contrary:
      - (a) words and expressions defined in the circular to shareholders of the Company dated 23 February 2012 (the “**Circular**”) have the same meanings in this article 3A, save where the context otherwise requires;
      - (b) the rights attaching to the ordinary shares and the D ordinary shares shall be identical save that, on the winding-up of the Company for the purpose of the reconstruction described in the Circular and notwithstanding anything in these Articles to the contrary, the rights of such shares shall be respectively as follows:
        - (i) subject to paragraph (iii) below, the holders of ordinary shares shall be entitled to assets having an aggregate value equal to the aggregate value of their respective entitlements under the Scheme, and such entitlement shall be satisfied by the issue to the holders thereof of the numbers of CMHYTL Shares to which they are respectively entitled in accordance with the Scheme;
        - (ii) the holders of D ordinary shares shall be entitled to receive assets having an aggregate value equal to the aggregate value of their respective entitlements under the Scheme; and
        - (iii) the holders of the ordinary shares shall be entitled (in their capacity as shareholders in CMHYTL) to any surplus remaining in the Liquidation Fund as provided in the Scheme; and
    - (c) subject to the special rights set out in paragraph (b) above, for the purposes of these Articles, the ordinary shares and the D ordinary shares rank *pari passu* and shall be deemed to be shares of the same class and these Articles shall be construed accordingly.”;



- (ii) by the addition of the following as a new article 154A:

“Notwithstanding anything in these articles to the contrary, but without prejudice to the generality of this article 154A, on the winding up of the Company in connection with the Scheme set out in Part III of the Circular, the Liquidators shall, with the sanction of a special resolution, give effect to the Scheme and shall enter into and give effect to the Transfer Agreement and the holders of ordinary shares shall be entitled to receive CMHYTL Shares. Words and expressions defined in the Circular have the same meanings in this article 154A save where the context requires otherwise.”; and
- (iii) such further amendments to the articles of association of the Company as may be required to give full effect to this resolution and the Scheme.

THAT:

- 2. in the event that a resolution for the voluntary winding up of the Company and the appointment of liquidators to be proposed at the extraordinary general meeting of the Company convened for 12.30 p.m. on 30 March 2012 as set out in the notice of meeting contained in the Circular is either not put to the meeting (or any adjourned meeting) or is not passed, the amendments to the articles of association of the Company effected by paragraph 1(c) of this resolution shall cease to have effect and, in either case, the re-classification of the ordinary shares provided for by this resolution shall be reversed and each D ordinary share shall revert to being an ordinary share the rights of which shall be as provided by the articles of association of the Company (prior to the amendments proposed in this resolution);

THAT:

- 3. subject to the conditions (other than the passing of this resolution) set out in paragraph 5 of the Scheme contained in Part III of the Circular having been fulfilled notwithstanding anything in the articles of association of the Company to the contrary, the Scheme be and is hereby approved and the Directors and the Liquidators be and they are hereby authorised (in so far as they are not already authorised by the articles of association of the Company) and directed to implement the Scheme and to execute any document and do any act or thing for the purpose of carrying the Scheme into effect and, in particular (but without prejudice to the foregoing generality):
  - (a) the Liquidators be and they are hereby authorised and directed, pursuant to section 110 of the Insolvency Act 1986 (as amended) and otherwise, to enter into and give effect to, and procure that the Company enter into and give effect to, the transfer agreement in the form of the draft which is produced to the meeting and signed for the purpose of identification by the chairman of the meeting with such non-material modifications thereto as the parties to such agreement may agree (the “**Transfer Agreement**”);
  - (b) the Liquidators be and are hereby authorised and directed to request CMHYTL to allot and issue ordinary shares of no par value in the capital of CMHYTL, credited as fully paid, on the basis described in the Transfer Agreement for distribution among the holders of the Shares entitled thereto under the Scheme (or to the Liquidators as nominees on their behalf) by way of satisfaction and discharge of their respective interests in the undertaking, property and assets of the Company which shall be transferred to CMHYTL in accordance therewith and with the Scheme;
  - (c) the Liquidators be and are hereby authorised to raise the money to purchase the interest of (i) any member who validly objects to the Scheme pursuant to section 111(2) of the Insolvency Act 1986 (as amended); and (ii) certain Overseas Shareholders with registered addresses in Restricted Jurisdictions, in each case from the Liquidation Fund;
  - (d) to distribute any surplus in the Liquidation Fund in accordance with the Scheme; and
  - (e) to apply for the delisting of the Shares by the Financial Services Authority at such time as the Liquidators, in their sole discretion, shall consider appropriate.
- 4. this resolution shall operate by way of such further amendments to the articles of association of the Company as may be necessary to give effect to this resolution and the Scheme; and

5. words and expressions defined in the Circular shall bear the same respective meanings in this resolution.

Dated 23 February 2012

*Registered Office:*

30 Finsbury Square  
London  
EC2A 1AG

*By order of the Board*

**Invesco Asset Management Limited**  
*Secretary*

**Notes:**

1. A Shareholder who is entitled to attend and vote at the First EGM is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him or her. A proxy need not be a member of the Company.
2. **CREST Members**  
CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so by utilising the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider, should refer to their CREST sponsor or voting service provider, who will be able to take the appropriate action on their behalf. 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's (formerly CRESTCo's) specifications and must contain the information required for such instructions, as described in the CREST Manual (available via [www.euroclear.com/CREST](http://www.euroclear.com/CREST)). The message, regardless of whether it relates to the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) by no later than 48 hours before the time of the meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp 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. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means. 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. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland 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, to procure that his CREST sponsor or voting service provider take, 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.
3. A white form of proxy is enclosed for use at the First EGM. The form of proxy should be completed and sent, together with (if not previously registered with the Company) the power of attorney or other authority (if any) under which it is executed, or a notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power or authority, so as to reach the Company's registrar, Capita Registrars, not later than 12.30 p.m. on 20 March 2012.
4. Completing and returning a form of proxy will not prevent a Shareholder from attending and voting in person at the First EGM should he or she so wish.
5. To have the right to attend and vote at the First EGM (and also for the purpose of calculating how many votes the Shareholder may cast on a poll), a Shareholder must first have his or her name entered in the Company's register of members by not later than close of business on 20 March 2012. Changes to entries in that register after that time shall be disregarded in determining the rights of any Shareholder to attend and vote at the First EGM.
6. Shareholders may also lodge their proxy instruction via Capita Registrars' website [www.capitashareportal.com](http://www.capitashareportal.com)

## NOTICE OF SECOND EXTRAORDINARY GENERAL MEETING

### CITY MERCHANTS HIGH YIELD TRUST PLC

(Incorporated in England and Wales, Registered No. 02649592)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of City Merchants High Yield Trust plc (the “Company”) will be held at 12.30 p.m. on 30 March 2012 at 30 Finsbury Square, London EC2A 1AG for the purposes of considering and, if thought fit, passing the following special resolution:

#### SPECIAL RESOLUTION

1. THAT, subject to the conditions (other than the passing of this resolution) set out in paragraph 5 of the scheme set out in Part III of the circular to the shareholders of the Company dated 23 February 2012 (the “Scheme”) having been fulfilled, in each case prior to the passing of this resolution:
  - (a) the Company be wound up voluntarily under the provisions of the Insolvency Act 1986 (as amended) and that Patrick Joseph Brazzill and Samantha Jane Keen, both licensed insolvency practitioners of Ernst & Young LLP, 1 More London Place, London SE1 2AF, (the “Liquidators”) be and are hereby appointed liquidators for the purposes of such winding up with powers to act jointly and severally for the purpose of winding up the affairs and distributing the assets of the Company;
  - (b) the remuneration to be paid to the Liquidators shall be fixed by reference to the time properly spent by the Liquidators and their staff in attending to matters arising prior to or during the winding up of the Company (including, without limitation, any matters outside the statutory duties of the Liquidators and undertaken at the request of the members or a majority of them) and the Liquidators be and are hereby authorised to draw such remuneration monthly or at such longer intervals as they may determine and to pay expenses properly incurred by them in connection with the winding up of the Company;
  - (c) the Company’s books and records be held by Invesco Asset Management Limited to the order of the Liquidators until the expiry of 12 months after the date of dissolution of the Company when they may be disposed of, save for financial and trading records which shall be kept for a minimum of six years following the vacation of the Liquidators from office;
  - (d) pursuant to section 165 of the Insolvency Act 1986 (as amended), to exercise such of the powers set out in Part I of Schedule 4 to that Act as may be necessary or desirable in their judgement to give effect to the Scheme; and
  - (e) in accordance with the articles of association of the Company, to divide among the members of the Company *in specie* or in kind the whole or any part of the assets of the Company.

Dated 23 February 2012

Registered Office:

30 Finsbury Square  
London  
EC2A 1AG

By order of the Board

**Invesco Asset Management Limited**  
Secretary

#### Notes:

1. A Shareholder who is entitled to attend and vote at the Second EGM is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him or her. A proxy need not be a member of the Company.
2. CREST Members

CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so by utilising the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider, should refer to their CREST sponsor or voting service provider, who will be able to take the appropriate action on their behalf. 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’s (formerly CRESTCo’s) specifications and must contain the information required for such instructions, as described in the CREST Manual (available via [www.euroclear.com/CREST](http://www.euroclear.com/CREST)). The message, regardless of whether it relates to the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy

must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) by no later than 48 hours before the time of the meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp 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. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means. 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. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland 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, to procure that his CREST sponsor or voting service provider take, 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.

3. A blue form of proxy is enclosed for use at the Second EGM. The form of proxy should be completed and sent, together with (if not previously registered with the Company) the power of attorney or other authority (if any) under which it is executed, or a notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power or authority, so as to reach the Company's registrar, Capita Registrars, not later than 12.30 p.m. on 28 March 2012.
4. Completing and returning a form of proxy will not prevent a Shareholder from attending and voting in person at the Second EGM should he or she so wish.
5. To have the right to attend and vote at the Second EGM (and also for the purpose of calculating how many votes the Shareholder may cast on a poll), a Shareholder must first have his or her name entered in the Company's register of members by not later than close of business on 28 March 2012. Changes to entries in that register after that time shall be disregarded in determining the rights of any Shareholder to attend and vote at the Second EGM.
6. Shareholders may also lodge their proxy instruction via Capita Registrars' website [www.capitashareportal.com](http://www.capitashareportal.com).

