City Merchants High Yield Trust plc

Annual Financial Report

Year Ended 31 December 2010

City Merchants High Yield Trust plc is a UK investment trust listed on the London Stock Exchange. It was launched in September 1991 as Exeter Selective Assets Investment Trust plc and merged with and changed its name to City Merchants High Yield Trust plc in November 2005.

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.

It should be noted that, although investment in higher-yielding securities may provide greater returns than investment in higher-rated interest-bearing securities, it entails greater risks.

If you have any queries about City Merchants High Yield Trust plc, or any of the other specialist funds managed by Invesco Perpetual, please contact the Investor Services Team on

0800 085 8677

www.invescoperpetual.co.uk/investmenttrusts

Investment Objective

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Portfolio Management and Personnel

A commentary on Invesco's management of the portfolio appears on pages 6 to 8, and details of the management team appear on page 16. Details of the management agreement and notice period are given on pages 31 and 32.

Share Capital

As at the date of publication, the Company's issued share capital comprises 72,799,105 ordinary shares of 2p each. Gearing is provided by bank borrowing. At the date of these accounts the actual gearing level was 100.

ISA Eligibility

The ordinary shares of the Company are eligible for investment via an ISA.

Glossary

A glossary of terms on pages 19 and 20 defines some of the more technical references used in this report.

Contents

The Company is a member of

aic
The Association of Investment Companies

Financial Information

Performance Statistics

Terms marked † are defined in the Glossary of Terms on pages 19 and 20.

* Source: Thomson Reuters Datastream

	At 31 December 2010	*At 31 December 2009*	*% Change*
Total Return†*			
Total return per ordinary share			+15.5
FTSE All-Share Index			+14.5
FTSE Government Securities – All Stocks			+7.2
Capital Return†			
Net asset value† per ordinary share	**168.98p**	156.69p	+8.0
Mid-market price per ordinary share	**173.00p**	158.00p	+9.5
Premium† per ordinary share	**2.4%**	0.8%	
FTSE All-Share Index			+10.9
FTSE Government Securities – All Stocks Index			+12.8
Gearing			
Asset gearing†	**91**	101	
Actual gearing†	**100**	110	
Total expense ratio†	**1.1%**	1.2%	

Ten-Year Record

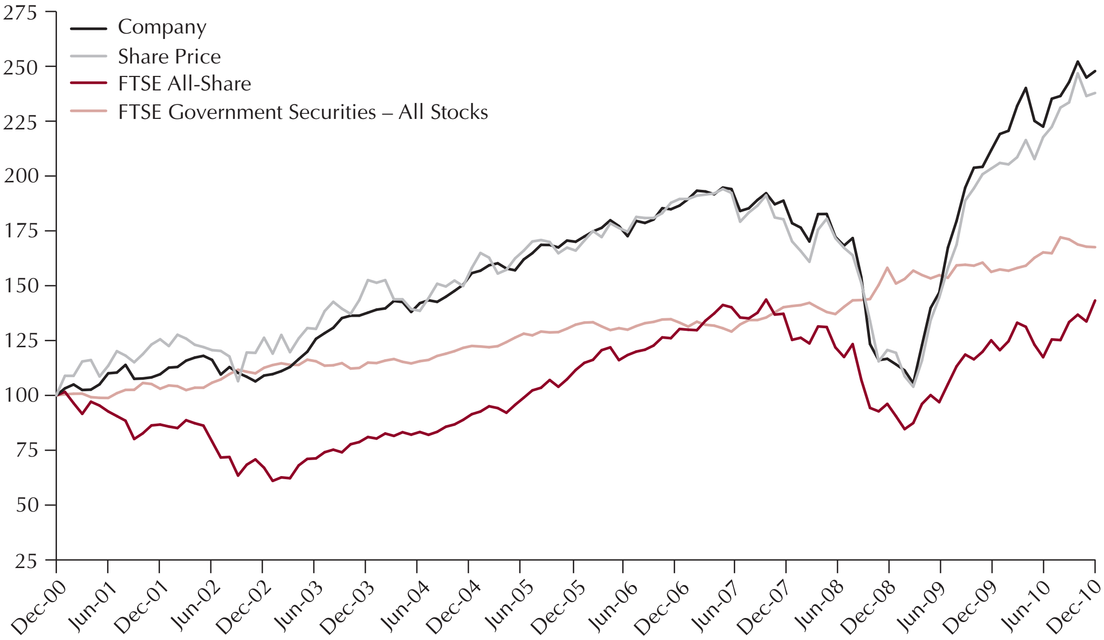
As explained in the 2005 Report and Accounts the Company (formerly Exeter Selective Assets Investment Trust plc) merged on 21 November 2005 with the 'old' City Merchants High Yield Trust plc. The terms of the merger allow direct comparison of the Company's financial information from, and including, 2005 with the 'old' City Merchants High Yield Trust plc financial information prior to 2005 extracted from that company's Annual Report and Accounts.

	Dividends on ordinary shares[1]				
To 31 December	*Cost £'000*	*Rate p*	*Total expense ratio %*	*Net asset value per ordinary share p*	*Mid-market price per ordinary share p*
2001	4,834	13.0	1.5	155.2	183.00
2002	4,885	13.0	1.7	141.9	170.50
2003	4,510	12.0	1.6	165.2	191.50
2004	4,510	12.0	1.6	174.8[2]	185.50
2005	7,203[3]	17.4[3]	1.6	175.6	181.75
2006	5,664	12.0	1.4	179.7	190.25
2007	6,176	12.0	1.4	170.1	169.50
2008[4]	6,718	12.0	1.4	97.5	104.50
2009	8,223	13.0	1.2	156.7	158.00
2010	**8,008**	**11.0**	**1.1**	**169.0**	**173.00**

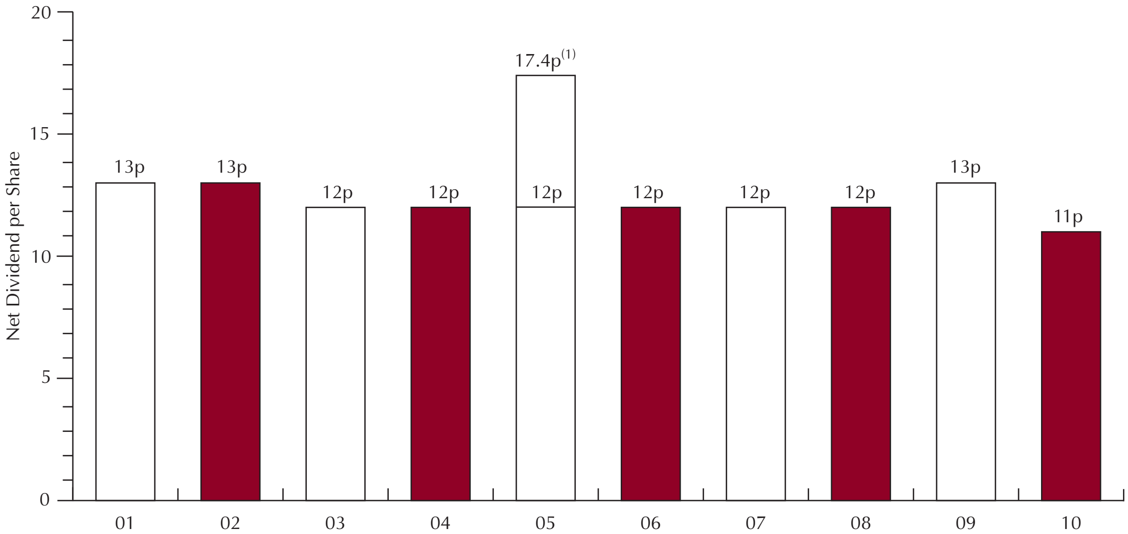
(1) The dividends shown are those that were proposed in respect of each financial year.
(2) Restated for new UK accounting standards effective from 31 January 2005.
(3) The dividend for 2005 is based on 10p paid by the 'old' City Merchants High Yield Trust and 7.4p paid by the Company, including a 5.4p Special Dividend.
(4) The total expense ratio excludes any refund of VAT on management fees.

Ten-Year Total Return Graph

Showing the Company's total return and the total returns of the Share Price and FTSE All-Share and FTSE Government Securities Indices – all figures rebased to 100 at 31 December 2000.



Ten-Year Dividend History



(1) Includes a 5.4p Special Dividend

Chairman's Statement

After the extreme volatility experienced in the last two years, 2010 was a year of relative stability. The Manager's Investment Report reviews the Company's performance during the year and gives further details of the strategy and outlook for your Company.

In the year under review the Company achieved a total return of 15.5%. This compares with the average return of 7.4% from the funds in the Investment Management Association Sterling Strategic Bond sector, comprised of funds with similar objectives. Your Company is again the top performing fund compared to this sector over the year to 31 December 2010 and over the last 5 years. A very satisfactory performance.

Since the merger with 'old' City Merchants in 2005, the Company's surplus management expenses have reduced the tax charge to a negligible amount, increasing the income available to be distributed as dividend.

As anticipated in my Statement last year and as will be seen in the Revenue Account, this situation came to an end in 2010. Your Board paid dividends of 11p per ordinary share by meeting the tax charge from Revenue Reserve.

As a result of lower world interest rates and the steps taken to reduce the risk of the Company's portfolio, referred to in the Manager's Investment Report, the current portfolio would produce Revenue in 2011 approximately 1p less per ordinary share compared to the Revenue per share produced in 2010. Your Board can, therefore, only target dividends of 10p per ordinary share for 2011. Actual dividends will depend on revenue receipts during the year. The tax charge is again expected to be met from Revenue Reserve.

Your Board is investigating options intended to ensure that the Company's tax charge is minimised in the future to enable the net Revenue to continue to be available to pay to shareholders in dividends.

The Board believes the portfolio remains well-positioned to continue to provide opportunities for modest growth while producing an attractive level of income for shareholders.

Annual General Meeting ('AGM')

As special business at the AGM, two Ordinary Resolutions and three Special Resolutions will be proposed as follows:

1. Continuation of the Company

With Ordinary Resolution 4 the Directors seek to be released from their obligation under the Company's Articles of Association to convene an Extraordinary General Meeting of the Company to be held by 30 June 2011 at which an extraordinary resolution would be proposed to wind up the Company.

2. Issuance of New Shares and Disapplication of Pre-emption Rights

With Ordinary Resolution 5 the Board is seeking to renew its authority to issue up to 10% of the Company's issued ordinary share capital. With Special Resolution 6 the Directors are seeking authority to issue new ordinary shares for cash pursuant to the authority sought by Resolution 5, disapplying pre-emption rights, up to an aggregate nominal amount of £145,598 (being approximately 10% of the Company' issued ordinary share capital). This will allow shares to be issued to new shareholders without having to be offered to existing shareholders first, thus broadening the shareholder base of the Company.

The two Resolutions provide the Directors with a degree of flexibility to increase the size of the Company by the issue of new shares should any favourable opportunities arise to the advantage of shareholders. The Directors will not use the authority so as to dilute the interests of existing shareholders by issuing shares at a price which is less than the NAV attributable to the shares. These authorities will expire at the AGM in 2012.

3. Share Buybacks

With Special Resolution 7 your Board seeks to renew the authority to buy back up to 14.99% of the Company's issued ordinary shares. Acquisitions under this authority will be subject to restrictions referred to in the Notice of AGM. Again, the interests of existing shareholders will be protected and the authority will expire at the AGM in 2012.

4. Calling General Meetings at 14 days' Notice

New UK legislation implementing the EU Shareholder Rights Directive has, with effect from 3 August 2009, increased the notice period for a general meeting from 14 days to 21 days. However, companies are able to pass a special resolution each year permitting them to continue to call general meetings (other than AGMs) on 14 days' notice if they allow voting by electronic means.

With Special Resolution 8 the Board is therefore asking for the authority to call any general meetings other than AGMs on 14 days' notice, should that be necessary.

Your Directors have carefully considered all the resolutions proposed in the Notice of Annual General Meeting and believe them to be in the best interests of the Company and its shareholders. The Directors therefore recommend that shareholders vote in favour of each resolution.

I look forward to seeing shareholders at the Annual General Meeting of the Company on 26 May 2011 when they will have an opportunity to meet members of the Board and the portfolio managers.

Clive Nicholson
Chairman

28 March 2011

Manager's Investment Report

Market background

Corporate bond markets delivered positive returns despite bouts of volatility as the focus switched from concern over corporate balance sheets to worries about governments. The period commenced with further gains from high-yield bonds, driven by positive sentiment and demand for income generating assets. Despite continuing concerns over sovereign debt, credit spreads tightened further with a rise in investor risk appetite leading to better performance from lower quality bonds. According to data from Merrill Lynch, euro high-yield spreads began the year at 755bps, falling to 592bps by April. However, moving into the spring, markets became increasingly volatile as the sovereign crisis in Europe intensified, with Greece in particular in the spotlight. Spreads widened back out to 824bps during June and core government bonds benefitted from a flight to quality. Bank debt weakened on concerns over issuers' exposure to peripheral Eurozone government bonds. However, following the results of the European Bank stress tests which included provisions for a "sovereign risk shock" and the Basel Committee's new bank capital requirements, there were renewed gains from subordinated bank debt as well as the wider corporate bond market. There was a further bout of sovereign-induced weakness in November, this time with Ireland unsettling markets, which saw corporate bond markets suffer additional falls. However, the final month of the year saw a further improvement, with euro high-yield spreads ending the year at 603bps. The strong performance of core government bonds over the year as a whole meant that, despite corporate spreads widening, euro high-yield delivered a return of 14.3%.

There was a continued fall in the 12-month European high-yield default rate to 2% in November, down significantly from the same period in 2009 when the rate was 11.5%. The UK's Monetary Policy Committee held interest rates at 0.5% throughout the period. However, from June onwards, the decision was no longer unanimous with one member voting for a rate increase. The voting followed a similar pattern until October, when there was a three-way split, with another member since voting for an increase in QE. UK inflation remained more than 1% above the 2% target throughout the year, ending at 3.3% on the annual CPI measure.

As of 21 March 2011, high-yield corporate bonds and subordinated bank debt have seen further gains, outperforming better quality investment-grade bonds, while core government bonds have seen yields increase.

According to data from Merrill Lynch, European high-yield spreads have fallen to 494bps, dropping below 500bps for the first time since December 2007. Globally, there were no new high-yield defaults in January. This is the first month since June 2007 when not a single default was recorded among Moody's-rated corporate issuers. Spreads on subordinated bank debt continued to narrow: sterling Tier 1 by a further 112bps to 529bps and euro Tier 1 by 125bps to 544bps. Reflective of this was news that Credit Suisse saw huge demand for a 7.875% hybrid bond which ranks above equity but below existing debt. Demand totalled US$22 billion for the US$2 billion of notes on offer. The bonds, known as contingent capital (or CoCos), are designed to convert into equity at a preset level of financial stress and are similar in structure to the Lloyds ECNs held in the portfolio.

The outlook for UK interest rates has received increased attention in 2011. As predicted by the Bank of England's Monetary Policy Committee UK inflation has increased further, with the annual CPI measure rising to 4.0% in January, double the Government's 2% target. The main factors for the increase were the increase in the rate of VAT and the rise in the price of crude oil. In his explanatory letter to the Chancellor, the Governor's comment that "under the assumption that Bank Rate increases in line with market expectations" led some to believe that a rate hike would occur shortly. However, February's Quarterly Inflation Report suggested that policy tightening would be small, gradual and still potentially subject to delay. Underlining the balancing act required was news, on the one hand, that the second estimate of Q4 GDP was unexpectedly revised down to –0.6% quarter-on-quarter from its initial weak estimate of –0.5% and, on the other, that February's CPI outturn of 4.4% means that inflation has now been 1% or more above the 2% target for 15 months.

Portfolio strategy

The Company's NAV started the year at 156.69p, rose to 172.70p until the Greek induced risk aversion saw it fall back to a low of 157.76p in June and then recovered to 168.98p at the end of the year. The Company reduced its gearing to nil and at the end of the year had a net cash position of circa 5%, providing flexibility to take advantage of opportunities as they arise.

The Company's portfolio managers believe that, despite having rallied considerably from their lows, high-yield corporate bonds continue to offer attractive opportunities, particularly from better quality (typically BB and B rated) issuers. Although spreads have clearly narrowed considerably from their distressed levels, in general yields are still attractive in comparison to the alternatives available. At the end of 2010, aggregate yields on euro B rated corporates were above 9%, compared with 3.3% for euro A rated corporates and below 3% for 10-year Bunds. Furthermore both markets and issuers are still in a recovery phase. Demand for high-yield paper remains strong, the default rate is already low, and set to decline further, and 2010 was a record year for issuance, much of which was in the form of senior secured bonds.

The portfolio managers continue to see value in banks and other financials. In particular the Company has significant positions in both subordinated and senior debt of predominately larger northern European banks. The managers believe that the combination of structural reform, conservative interpretations of Basel III and rising capital levels will be a powerful support for subordinated bank debt for years to come. Aggregate yields on this type of debt still offer real value even in the context of their higher volatility: sterling Tier 1 bank debt yields on aggregate 9.3% according to Merrill Lynch data, compared with 4-5% on the more defensive areas of investment grades. Overall, the managers believe that a prolonged period lies ahead of deleveraging for state, personal and bank balance sheets. This will cause a headwind for economic recovery and means that there is likely to be low growth and with it very low interest rates for the next couple of years. In such conditions banking could become a more utility-like, low risk, low return business. This is viewed as very supportive for bond holders. The portfolio's exposure to bank debt was increased over the year from 12.3% to 21.9%.

Portfolio activity saw a reduction in the number of holdings from 195 to 148 as the managers sought to reduce risk slightly. Several of the positions sold were new issues from 2009, as well as a number made earlier in 2010 which were trading above par and where yields had subsequently become less attractive. A number of other sales were in positions that had rallied strongly from their lows of early 2009 but where the managers felt there was limited scope for further improvement. A number of equity positions were also sold such as Independent News and mining companies Ausdrill and Australasian Resources, while Gate Gourmet was reduced. Wind (telecom) concluded a debt refinancing which saw the 11% bond due in 2015 maturing early and VNU (media) redeemed a 9% bond due in 2014.

Elsewhere, a record year for high-yield issuance allowed a number of new positions with attractive coupons to be added to the portfolio. These included Abengoa (construction) 8.5%, Kerling (chemical) 10.625%, DFS (retail) 9.75%, Nalco (chemical) 6.875%, Convatec (medical) 7.375%, Codere (leisure) 8.25%, Care UK (healthcare) 9.75% and Mark IV (autos) 8.875%. Corporate hybrids issued by utility providers RWE 4.625%, Scottish & Southern 5.025% and Suez 4.82% were also added.

Outlook

Looking ahead, fixed interest markets are likely to be subject to further bouts of volatility. Both government and corporate bonds issued by members of the peripheral Eurozone countries, as well as European banks holding significant positions in them, may come under further pressure. Contagion fears may at times also spread into the wider market. Nonetheless, the European Central Bank and core European

Manager's Investment Report

continued

governments are not likely to remain inactive if confidence evaporates further. The ECB has a number of options at its disposal such as purchases of government bonds and the use of repo facilities.

With headline inflation remaining above target, a modest increase in short-term interest rates remains possible. The MPC's central view remains that the persistence of spare capacity will reduce underlying price pressures and "cause CPI inflation to fall back as the impact of temporary factors wane". The portfolio managers agree that it is hard to be too bearish about inflation unless there is a strong improvement in aggregate demand. The economy still is in the midst of a prolonged period of deleveraging for state, personal and bank balance sheets. Fiscal tightening and weak real income growth will continue to create headwinds for growth in 2011. As long as this remains the case, monetary policy adjustments should be slow and drawn out. On the other hand, it could be argued that an early modest change in monetary policy might be a good thing as it would prevent a build up of inflation worries and would help flatten, or even invert, the yield curve.

However, while the focus remains on governments with excessive debt levels, it should be remembered that there are reasons to be positive. Corporate balance sheets remain generally robust, cash balances are good, leverage low and management strong – a far stronger position than the asset class was in 18 months ago. Although returns in 2011 are likely to be based on yield and therefore more modest, there are sections of the market that have reasonably attractive spreads and improving credit profiles. Consequently, the managers believe the portfolio remains an attractive proposition as an income-producing vehicle.

Invesco Asset Management Limited
Manager
Paul Read **Paul Causer**
Portfolio Managers
28 March 2011

Classification of Investments by Geographical Location

at 31 December

2010	**United Kingdom**	**North America**	**Europe**	**South Africa & Australia**	**Other Areas**	**Total**
	%	%	%	%	%	%
Equities	**0.2**	**1.3**	**1.2**	**—**	**—**	**2.7**
(2009)	0.1	0.3	1.7	0.7	—	2.8
Preference	**3.0**	**1.0**	**—**	**—**	**—**	**4.0**
(2009)	—	—	—	—	—	—
Convertible Preference	**5.1**	**—**	**—**	**—**	**—**	**5.1**
(2009)	4.5	—	—	—	—	4.5
Fixed Interest	**30.0**	**22.7**	**33.7**	**1.5**	**0.3**	**88.2**
(2009)	32.1	21.2	34.0	2.8	2.6	92.7
Total	**38.3**	**25.0**	**34.9**	**1.5**	**0.3**	**100.0**
Total 2009	*36.7*	*21.5*	*35.7*	*3.5*	*2.6*	*100.0*

Sector Analysis of Investments by Geographical Location

at 31 December

	2010			*2009*		
	United Kingdom	**Non-UK**	**Total**	*United Kingdom*	*Non-UK*	*Total*
	%	%	%	%	%	%
Oil and Gas	**—**	**4.1**	**4.1**	0.5	3.3	3.8
Basic Materials	**1.9**	**3.6**	**5.5**	3.3	6.7	10.0
Industrials	**7.5**	**5.5**	**13.0**	8.0	7.2	15.2
Consumer Goods	**1.4**	**13.2**	**14.6**	0.1	11.5	11.6
Healthcare	**0.4**	**—**	**0.4**	0.3	2.0	2.3
Consumer Services	**2.0**	**6.3**	**8.3**	2.1	10.7	12.8
Telecommunications	**1.0**	**1.2**	**2.2**	0.3	1.5	1.8
Utilities	**3.2**	**2.6**	**5.8**	1.5	0.6	2.1
Financials	**20.7**	**23.3**	**44.0**	20.4	16.1	36.5
Technology	**0.1**	**0.9**	**1.0**	0.2	3.7	3.9
Support Services	**0.1**	**1.0**	**1.1**	—	—	—
Total	**38.3**	**61.7**	**100.0**	36.7	63.3	100.0

The percentages shown in the above tables are related to the value of investments of £111.4 million (2009: £114.7 million).

Currency Exposure of Portfolio and Cash, including and excluding Currency Hedging

at 31 December

	2010 Including Currency Hedging			**Portfolio and Cash**	*2009 Including Currency Hedging*			*Portfolio and Cash*
	Sterling %	**Other %**	**Total %**	**%**	*Sterling %*	*Other %*	*Total %*	*%*
Equities	**0.2**	**2.4**	**2.6**	**2.6**	0.1	2.9	3.0	2.7
Convertible Preference	**4.8**	**—**	**4.8**	**4.8**	4.8	—	4.8	4.4
Fixed Interest								
Convertibles	**0.1**	**4.5**	**4.6**	**4.6**	1.1	0.3	1.4	1.2
Loans & Debenture Stocks	**34.6**	**44.9**	**79.5**	**79.2**	22.7	69.7	92.4	84.0
Preference Stock	**2.9**	**0.9**	**3.8**	**3.8**	4.4	1.4	5.8	5.3
Total Fixed Interest	**37.6**	**50.3**	**87.9**	**87.6**	28.2	71.4	99.6	90.5
Portfolio Total	**42.6**	**52.7**	**95.3**	**95.0**	33.1	74.3	107.4	97.6
Cash	**2.2**	**2.8**	**5.0**	**5.0**	1.1	1.6	2.7	2.4
Portfolio and Cash Total	**44.8**	**55.5**	**100.3**	**100.0**	34.2	75.9	110.1	100.0
Currency Hedging								
Borrowings	**—**	**—**	**—**		(3.7)	(6.7)	(10.4)	
Forward currency sales	**38.2**	**(38.5)**	**(0.3)**		49.2	(48.9)	0.3	
Total Currency Hedging	**38.2**	**(38.5)**	**(0.3)**		45.5	(55.6)	(10.1)	
Net Currency Exposure	**83.0**	**17.0**	**100.0**		79.7	20.3	100.0	

Bond Rating Analysis (Standard and Poor's Ratings)

Rating	***2010 % of Portfolio***	*2009 % of Portfolio*
AA–	**—**	0.1
A+	**—**	0.2
A	**0.9**	2.0
A–	**4.3**	2.4
BBB+	**12.0**	7.6
BBB	**7.0**	3.0
BBB–	**0.5**	1.6
BB+	**5.4**	1.7
BB	**8.8**	7.5
BB–	**10.9**	7.7
B+	**7.4**	7.9
B	**10.3**	9.2
B–	**5.7**	6.9
CCC+	**0.2**	2.6
CCC	**0.7**	7.3
CCC–	**—**	3.5
CC	**—**	2.9
C	**—**	0.2
D	**—**	0.4
NR (including equity)	**25.9**	25.3
	100.0	100.0

For the definitions of these ratings see the Glossary on page 20.

Investments in Order of Valuation

at 31 December 2010

Issuer	*Issue*	*Moody/S&P Rating*	*Sector*	*Country of Incorporation*	*Market Value £'000*	*% of Portfolio*
LBG Capital	7.975% Sep 15 24	Ba3/BB–	Financial	UK	3,153	2.83
	6.385% May 12 20	Ba2/BB			347	0.31
	9% Dec 15 19	Ba2/BB			930	0.83
	16.125% Dec 10 24	Ba2/BB			126	0.11
	6.439% May 23 20	Ba3/BB–			691	0.62
	7.869% Aug 25 20	Ba3/BB–			869	0.78
					6,116	5.48
Ford Motor	7.45% Jul 16 31	Ba3/B	Consumer Goods	USA	4,121	3.70
Societe Generale	8.875% FRN Perpetual	Baa2/BBB+	Financial	France	3,928	3.52
Premier Farnell	Pfd 89.2P Cum Cnv	NR/NR	Industrials	UK	3,550	3.19
General Motors	PFD USD50.00	NR/NR	Consumer Goods	USA	1,072	0.96
	Motors liquidation 8.375% Jul 5 33	WR/NR			1,894	1.70
	Motors liquidation 8.375% Jul 15 33	WR/NR			452	0.41
					3,418	3.07
Citigroup	PFD USD100	Equity	Financial	USA	1,000	0.90
	FRN Jun 28 67	Ba1/BB+			1,624	1.46
	Common Stock	Equity			61	0.05
					2,685	2.41
Aviva	6.125% Perpetual	A3/BBB+	Financial	UK	2,498	2.24
Intergen	9.5% Jun 30 17	Ba3/BB–	Oil & Gas	Holland	2,170	1.95
	8.5% Jun 30 17	Ba3/BB–			230	0.21
					2,400	2.16
Virgin Media Finance	8.875% Oct 15 19	Ba3/B+	Consumer Services	UK	1,131	1.01
	7% Jan 15 18	Ba1/BB+			1,060	0.95
					2,191	1.96
Ecclesiastical	8.625% Non Cum Irrd Prf	NR/NR	Financial	UK	2,170	1.95
Cemex Sab	4.875% Cnv Mar 15 15	NR/NR	Consumer Goods	USA	2,104	1.89
Balfour Beatty	Prf 10.75P Gross	NR/NR	Industrials	UK	2,077	1.86
American International Group	8.625% FRN May 22 68	Ba2/BBB	Financial	USA	982	0.88
	4.875% FRN Mar 15 67	Ba2/BBB			401	0.36
	8.175 May 15 68	Ba2/BBB			675	0.61
					2,058	1.85
Credit Agricole	7.589% FRN Perpetual	A3/A–	Financial	France	1,944	1.74
Unity Media	9.625% Dec 01 19	B3/B–	Consumer Services	Germany	1,884	1.69
First Hydro Finance	9% Jul 31 21	NR/NR	Utilities	UK	1,848	1.66
Catlin	7.249% FRN Perpetual	NR/BBB+	Financial	USA	1,767	1.59
Santos Finance	8.25% Sep 22 70	NR/BB	Financial	Australia	1,679	1.51
Scottish & Southern Energy	5.025% Perpetual	Baa2/BBB	Utilities	UK	1,666	1.49
RWE	4.625% FRN Perpetual	Baa1/BBB+	Utilities	Germany	1,653	1.48
Santander	11.3% FRN Perpetual	Baa2/A–	Financial	Spain	1,583	1.42
REA Finance	9.5% Dec 31 17	NR/NR	Consumer Goods	Holland	1,560	1.40
BAC Capital Trust	5.25% Aug 10 35	Baa3/BB+	Financial	USA	1,543	1.38
Legrand	8.5% Deb Feb 15 25	Baa2/BBB	Industrials	France	1,490	1.34
DFS	9.75% Jul 15 17	B1/B	Consumer Goods	UK	1,485	1.33

Investments in Order of Valuation

continued

Issuer	*Issue*	*Moody/S&P Rating*	*Sector*	*Country of Incorporation*	*Market Value £'000*	*% of Portfolio*
Wind Acquisition	11.75% Jul 15 17	B2/B+	Consumer Services	Italy	715	0.64
	7.375% Feb 15 18	Ba2/BB–			672	0.60
					1,387	1.24
Gategroup	Chf5	Equity	Consumer Goods	Switzerland	1,258	1.13
Reynolds	7.75% Oct 15 16	Ba3/BB	Industrials	USA	897	0.80
	9.5% Jun 15 17	Caa1/B–			353	0.32
					1,250	1.12
Suez	4.82% FRN Perpetual	Baa2/NR	Utilities	France	1,240	1.11
General Accident	8.875% Cum Irrd Prf	NR/NR	Financial	UK	1,225	1.10
C10 Capital	6.277% FRN Perpetual	NR/B–	Financial	UK	1,164	1.04
Rexam	6.75% FRN Jun 29 67	Ba2/BB	Industrials	UK	1,153	1.03
Hertz	10.5% Jan 01 16	B3/B–	Consumer Goods	USA	676	0.61
	7.875% Jan 01 14	B2/B–			433	0.39
					1,109	1.00
Iron Mountain	6.75% Oct 15 18	B1/B+	Support Services	USA	1,073	0.96
Novae	8.375% Apr 27 17	Ba1/NR	Financial	UK	1,062	0.95
Siemens	6.125% Sep 14 66	A3/BBB+	Telecommunications	Holland	1,034	0.93
Bank of America	6.125% Sep 15 21	A2/A	Financial	USA	962	0.86
Standard Chartered	FRN Perpetual	Baa1/NR	Financial	UK	375	0.34
	9.5% FRN Perpetual	A3/BBB+			349	0.31
	8.125% FRN Perpetual	Baa3/BBB			199	0.18
					923	0.83
Cie Gen Geophysique	7.75% May 15 17	Ba3/BB–	Oil & Gas	France	920	0.83
MWB	9.75% Jun 30 12	NR/NR	Financial	UK	900	0.81
Cedc	8.875% Dec 01 16	B1/B+	Consumer Services	USA	897	0.80
Royal & Sun Alliance	8.5% FRN Perpetual	Baa1/BBB+	Financial	UK	891	0.80
Tereos	6.375% Apr 15 14	B1/BB	Basic Materials	France	891	0.80
Heating Finance	7.875% Mar 31 14	B2/B	Financial	UK	887	0.80
Nielsen	11.125% Aug 01 16	Caa1/B–	Consumer Services	Holland	878	0.79
Sl Finance	6.75% Perpetual	A3/A–	Financial	UK	871	0.78
Convatec	10.875% Dec 15 18	Caa1/B	Consumer Services	Luxembourg	866	0.78
Northern Rock	9.375% Oct 17 21	Caa3/BB	Financial	UK	845	0.76
Peabody	4.75% Cnv Dec 15 66	Ba3/B+	Basic Materials	USA	832	0.75
Intesa	8.375% FRN Perpetual	Baa1/BBB+	Financial	Italy	821	0.74
Unicredit	8.125% FRN Perpetual	Baa3/BBB	Financial	Luxembourg	821	0.74
Abengoa	8.5% Mar 31 16	NR/B+	Industrials	Spain	810	0.73
Kabel Deutschland	10.75% Jul 01 14	B1/BB–	Consumer Services	Germany	603	0.54
	10.625% Jul 01 14	B1/BB–			78	0.07
					681	0.61
Ashtead Capital	9% Aug 15 16	B2/B+	Industrials	USA	668	0.60
UBI Banca International	8.75% Oct 29 12	NR/NR	Financial	Italy	667	0.60
Ashtead Holdings	8.625% Aug 01 15	B2/B+	Industrials	UK	332	0.30
	8.625% Aug 01 15	B2/B+			332	0.30
					664	0.60
Vedanta	4% Cnv Mar 30 17	NR/BB	Basic materials	UK	659	0.59
Stena	6.125% Feb 01 17	Ba3/BB+	Financial	Sweden	653	0.59
Fortis Bank	FRN Cnv Perpetual	Ba3/BB	Financial	Belgium	644	0.58
UBS Capital Securities	8.836% FRN perpetual	Baa3/BBB–	Financial	UK	619	0.56
Expro Fin Luxembourg	8.5% Dec 15 16	B2/B	Oil & Gas	UK	612	0.55

Issuer	*Issue*	*Moody/S&P Rating*	*Sector*	*Country of Incorporation*	*Market Value £'000*	*% of Portfolio*
Old Mutual	8% Perpetual	Baa3/NR	Financial	UK	607	0.54
Phoenix Life	7.25% Perpetual	Baa3/BBB	Financial	UK	592	0.53
Axa	6.379% FRN Perpetual	Baa1/BBB	Financial	France	579	0.52
Rhodia	7% May 15 18	B1/BB	Basic Materials	France	453	0.41
	FRN Oct 15 13	B1/BB			105	0.09
					558	0.50
Boats Investments	11% Mar 31 17	NR/NR	Financial	Holland	539	0.48
Taylor Wimpey	10.375% Dec 31 15	B2/B+	Consumer Services	UK	523	0.47
William Hill	7.125% Nov 11 16	Ba1/BB+	Consumer Services	UK	519	0.47
Care UK	9.75% Aug 01 17	B2/B+	Health Care	UK	516	0.46
Pipe	9.5% Nov 01 15	B3/B–	Basic Materials	UK	515	0.46
Peel	8.375% Apr 30 40	NR/NR	Financial	UK	512	0.46
Alcatel	6.5% Jan 15 28	B1/B	Technology	USA	510	0.46
IFCO Systems	10% Jun 30 16	Ba3/BB–	Industrials	Holland	509	0.46
Alcatel-Lucent	6.45% Mar 15 29	B1/B	Technology	USA	507	0.45
ISS Finance	11% Jun 15 14	NR/B	Financial	UK	473	0.42
HeidelbergCement	8.5% Oct 31 19	Ba3/BB–	Industrials	Germany	472	0.42
Kerling	10.625% Feb 01 17	B3/B	Basic Materials	UK	469	0.42
Ineos	9.25% May 15 15	B1/B	Basic Materials	UK	458	0.41
SPCM	8.25% Jun 15 17	B3/BB–	Basic Materials	France	451	0.40
Nalco	6.875% Jan 15 19	Ba2/BB–	Basic Materials	USA	443	0.40
Travelport	10.875% Sep 01 16	Caa1/CCC	Industrials	USA	442	0.40
Campofrio	8.25% Oct 31 16	B1/BB–	Consumer Goods	Spain	441	0.40
Cirsa Finance	8.75% May 15 18	B3/B+	Consumer Goods	Czech	439	0.39
Mark IV	8.875% Dec 15 17	Ba3/BB–	Industrials	Luxembourg	435	0.39
Codere	8.25% Jun 15 15	B2/B	Consumer Services	Luxembourg	430	0.39
Legal & General	6.385% FRN Perpetual	Baa2/BBB+	Financial	UK	427	0.38
Nara Cable	8.875% Dec 01 18	B2/B–	Financial	Ireland	411	0.37
Parpublic	3.25% Cnv	A1/BBB	Oil & Gas	Portugal	386	0.35
M&G Finance	7.5% FRN Perpetual	NR/NR	Industrials	Luxembourg	361	0.32
Sunrise	7% Dec 31 17	Ba3/BB	Financial	Luxembourg	270	0.24
	8.5% Dec 31 18	B3/B			90	0.08
					360	0.32
Wells Fargo	9.75% FRN Perpetual	Baa3/A–	Financial	USA	357	0.32
Inmarsat	7.375% Dec 01 17	Ba2/BB+	Telecommunications	USA	335	0.30
Pregis	12.375% Oct 15 13	Caa2/CCC	Basic Materials	USA	315	0.28
Novasep	9.625% Dec 15 16	B3/B	Basic Materials	France	301	0.27
Nexans	1.5% Cnv Jan 01 13	NR/BB+	Industrials	France	291	0.26
Rothschilds	FRN Perpetual	NR/NR	Financial	UK	281	0.25
Petroplus Finance	4% Cnv Oct 16 15	NR/B	Financial	Switzerland	275	0.25
HTM Sport & Freizeit	10% Aug 01 12	NR/CCC+	Consumer Goods	Austria	254	0.23
Pfleiderer Finance	7.125% FRN Perpetual	WR/NR	Industrials	Holland	252	0.23
Brazilian Resources	Common Stock	Equity	Oil & Gas	Canada	244	0.22
Skipton	10% Dec 12 18	Ba2/NR	Financial	UK	230	0.21
Korreden	11% Aug 01 14	NR/NR	Financial	France	200	0.18
Timberwest	Stapled Unit	Equity	Basic Materials	Canada	166	0.15
Investec	7.075% Perpetual	B1/NR	Financial	UK	146	0.13
Corporate Services	10% Apr 29 11	NR/NR	Support Services	UK	119	0.11
Pittards	Ord	Equity	Consumer Goods	UK	116	0.10
Pearl	6.5864% FRN Perpetual	NR/NR	Financial	UK	111	0.10

Investments in Order of Valuation

continued

Issuer	*Issue*	*Moody/S&P Rating*	*Sector*	*Country of Incorporation*	*Market Value £'000*	*% of Portfolio*
Rivington	8% Cnv Jun 30 15	NR/NR	Financial	UK	100	0.09
	0% Cnv Dec 13 13	NR/NR			6	0.01
					106	0.10
Corero	Ord	Equity	Technology	UK	84	0.08
Cattles	8.125% Jul 05 17	C/NR	Financial	UK	73	0.07
	7.875% Jan 17 14	C/NR			1	0.00
					74	0.07
Head	Ord	Equity	Consumer Goods	Holland	73	0.07
Chesapeake	7% Dec 15 14	WR/NR	Basic Materials	USA	30	0.03
	10.375% Nov 15 11	WR/NR			15	0.01
					45	0.04
GMA Resources	Ord	Equity	Basic Materials	UK	31	0.03
Welsh Power	'C' Shares (Unquoted)	Equity	Utilities	UK	23	0.02
Hollandwide	0% Aug 01 14	NR/NR	Financial	Holland	16	0.01
Advanced Magnesium	NPV	Equity	Industrials	Australia	5	0.00
Ziggo	6.125% Nov 15 17	Ba2/BB	Financial	Holland	856	0.77
					111,445	100.0

Abbreviations used in the above valuation:

- Cnv: Convertible
- FRN: Floating Rate Note
- Irrd: Irredeemable
- NPV: Nil Par Value
- Ord: Ordinary Shares
- Pfd: Preferred
- Pref: Preference

Directors

Clive A. H. Nicholson
(Chairman)

Joined the Board of the Company's predecessor on 1 January 2005. He was appointed to the Board of the Company on 21 November 2005 and became its Chairman on 1 January 2007. He is a senior Partner of Chartered Accountants Saffery Champness, having joined the partnership in 1972. He is Deputy Chairman of Nexia International, the worldwide network of accountancy and consulting firms.

Christopher FitzGerald

Joined the Board on 1 January 2007. He is a member of the Financial Reporting Review Panel, prior to which he served as the first Chairman of the Financial Services Authority's independent Regulatory Decisions Committee. A lawyer by profession, he was a partner at Slaughter and May for 20 years and subsequently held senior positions at NatWest Group and The Intercare Group plc. He is the Chairman of the Audit Committee.

Richard H. King

Joined the Board of the Company's predecessor on 3 March 2003. He was appointed to the Board of the Company on 21 November 2005. He has been involved in international equity investment for over 30 years and was a Partner and Senior Managing Director of Warburg Pincus Asset Management between 1989 and 1999.

Kenneth G. R. MacLennan

Joined the Board of the Company's predecessor on 3 May 2005. He was appointed to the Board of the Company on 21 November 2005. He is a Partner at JCA Group, an executive coaching firm. Previously he held senior positions at Standard Chartered Bank, prior to his appointment as Chief Executive of Korn/Ferry International UK Ltd.

Winifred Robbins

Joined the Board on 19 March 2009. She was previously Managing Director and Head of Pan-European Fixed Income at Credit Suisse Asset Management, Managing Director and Head of Non-US Fixed Income at Citigroup Asset Management, and Managing Director and Head of European Fixed Income at Barclays Global Investors from which appointment she retired in 2008.

Robin A. M. Baillie retired from the Board on 2 June 2010.

All Directors are members of the Audit Committee.

Advisers and Principal Service Providers

Investment Management
City Merchants High Yield Trust plc is managed by Invesco Asset Management Limited (Invesco). Day-to-day management is the responsibility of Paul Read and Paul Causer, Co-Heads of Invesco's Fixed-Interest Team based in Henley.

Manager, Secretaries and Registered Office

Invesco Asset Management Limited
30 Finsbury Square
London EC2A 1AG
☎ 020 7065 4000
Company Secretarial contacts: Kerstin Rucht and Nira Mistry

Registered in England and Wales
Number 2649592

Invesco Perpetual Investor Services

Invesco Perpetual's Investor Services Team is available from 8.30 a.m. to 6 p.m. every working day. Shareholders should feel free to take advantage of their expertise.
☎ 0800 085 8677

Registrars

Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
West Yorkshire HD8 0GA

Shareholders who hold shares directly and not through a Savings Scheme or ISA and have queries relating to their shareholding should contact the Registrars.
☎ 0871 664 0300
(Calls cost 10p per minute plus network extras.) Lines are open Monday to Friday 8.30 a.m. to 5.30 p.m.

Shareholders holding shares directly can also access their holding details via Capita's website: www.capitaregistrars.com or www.capitashareportal.com

Capita Registrars provide an on-line and telephone share dealing service to existing shareholders who are not seeking advice on buying or selling. This website is: www.capitadeal.com
☎ 0871 664 0454
(Calls cost up to 10p per minute plus network extras.) Lines are open Monday to Friday 8 a.m. to 5.30 p.m.

Dividend Re-Investment Plan

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

Auditors

Ernst & Young LLP
1 More London Place
London SE1 2AF

Custodian

The Bank of New York Mellon
160 Queen Victoria Street
London EC4V 4LA

Corporate Brokers

Winterflood Investment Trusts
The Atrium Building
Cannon Bridge
25 Dowgate Hill
London EC4R 2GA

Solicitors

Ashurst LLP
Broadwalk House
5 Appold Street
London EC2A 2HA

Savings Scheme and ISA Administration

for both the Invesco Perpetual Investment Trust Savings Scheme and ISA:

Invesco Perpetual
Perpetual Park
Perpetual Park Drive
Henley-on-Thames
Oxfordshire RG9 1HH
☎ 0800 085 8677

Shareholder Information

The shares of City Merchants High Yield Trust plc are quoted on the London Stock Exchange.

Savings Plan and ISA

The Company's ordinary shares are eligible for investment via an ISA.

City Merchants High Yield Trust plc is also a member of the Invesco Perpetual Investment Trust Savings Scheme and the Invesco Perpetual Investment Trust ISA. Shares in the Company can be purchased and sold via these two schemes.

Invesco Perpetual Investment Trust Savings Scheme

The Invesco Perpetual Investment Trust Savings Scheme allows an investor to make monthly purchases of as little as £20 per month or through lump sum investments of £500 or above in the shares of City Merchants High Yield Trust plc in a straightforward and low-cost way.

Invesco Perpetual Investment Trust ISA

The Invesco Perpetual Investment Trust ISA allows investments up to £10,200 (10,680 from 6 April 2011) in shares of City Merchants High Yield Trust plc in each tax year. Investors can also choose to make lump sum investments from £500, or regular investments from as little as £20 per month.

The ISA investment allowance is currently £10,200 each tax year. Investors can choose to invest up to this limit in a stocks and shares ISA with one manager. Alternatively up to £5,100 can be invested in a cash ISA and, if so wished, the remainder in a stocks and shares ISA with either the same or different manager.

Full details of these Invesco Perpetual investment schemes can be obtained from Invesco Perpetual's Investor Services Team free on ☎ 0800 085 8677.

Share Price Listings

The price of the Company's shares can be found in the following places:

Financial Times	Investment Companies
The Times	Investment Companies
The Daily Telegraph	Investment Trusts
Reuters	CHY.L
Bloomberg	CHY.LN

Internet addresses

Trustnet	www.trustnet.co.uk
Interactive Investor	www.iii.co.uk
Invesco Perpetual	www.invescoperpetual.co.uk/investmenttrusts
The Association of Investment Companies	www.theaic.co.uk

NAV Publication

The Company's Net Asset Value is calculated daily and notified to the Stock Exchange by the Manager on the following business day. The Net Asset Value is also published daily in the Financial Times, Daily Telegraph and The Times. It can also be found on the Manager's website.

Manager's Website

Information relating to the Company can be found on the Manager's website, which can be located 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 in to, nor do they form part of this annual financial report.

Shareholder Information

continued

Financial Calendar

In addition, the Company publishes information according to the following calendar:

Announcements

Annual financial results	March/April
Interim Management Statement	April/May
Half-yearly unaudited results	August
Interim Management Statement	October

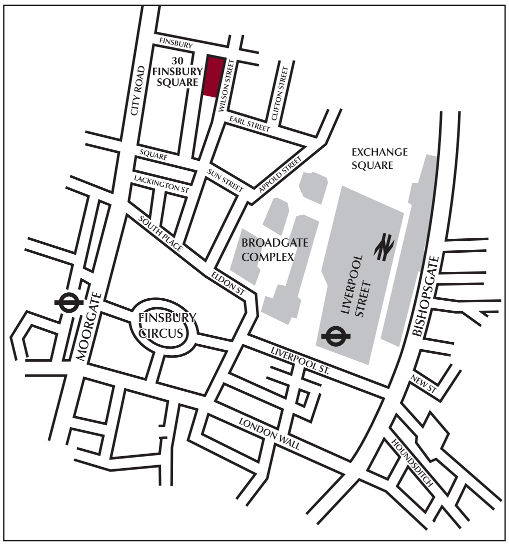
Ordinary Share Dividends

Interim dividends payable	May, August, November, February

Annual General Meeting	May/June
Year End	31 December

Location and Date of Annual General Meeting:

30 Finsbury Square, London EC2A 1AG
at 2.30 p.m. on 26 May 2011.



Glossary of Terms

Premium/(Discount)

The amount by which the mid-market price per share of an investment trust is higher/lower than the net asset value per share. The premium/(discount) is normally expressed as a percentage of the net asset value of the share.

Gearing

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 the Company's investments is rising but reduce the return when values are declining. A gearing level of 100 or 0% indicates there is no gearing.

Actual Gearing reflects the amount of loans already arranged and in use by the Company. This is the gearing figure published by the Association of Investment Companies. It is calculated by dividing the aggregate of shareholders' funds and all drawn down-loans by shareholders' funds.

Asset Gearing reflects the amount of loans actively invested in assets and not held in cash. It is calculated by dividing fixed assets investments by shareholders' funds.

Gross Assets

The gross worth of the Company's assets. It is arrived at by totalling the value of the Company's listed investments at bid-market prices, unlisted at directors' valuation, cash and other net current assets.

Net Asset Value ('NAV')

Also described as shareholders' funds, the net asset value is the value of total assets less liabilities. Liabilities include current and long-term liabilities. The net asset value per share is calculated by dividing the net asset value by the number of ordinary shares in issue.

Return

The return generated in the period from the investments.

Capital Return reflects the return on capital, excluding any income returns.

Total Return reflects the aggregate of capital and income returns in the period. The NAV total return reflects capital changes in the NAV and dividends paid in the period.

Total Expense Ratio

The total expenses, excluding interest or any recoverable VAT on management fees, incurred by the Company as a percentage of average shareholders' funds. Total expenses exclude those charged to capital arising from issues of shares as these are costs directly attributable to increasing the net assets of the Company and not ongoing running costs.

Glossary of Terms
continued

Credit ratings

The definitions for the credit ratings shown in the financial statements are as follows:

Moody's Ratings
Investment grade

Aaa: judged to be of the highest quality, with minimal credit risk.

Aa1, Aa2, Aa3: judged to be of high quality and are subject to very low credit risk.

A1, A2, A3: considered upper-medium grade and are subject to low credit risk.

Baa1, Baa2, Baa3: subject to moderate credit risk. They are considered medium-grade and as such may possess certain speculative characteristics.

Speculative grade (Non-investment grade)

Ba1, Ba2, Ba3: judged to have speculative elements and are subject to substantial credit risk.

B1, B2, B3: considered speculative and are subject to high credit risk.

Caa1, Caa2, Caa3: judged to be of poor standing and are subject to very high credit risk.

Ca: highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.

C: lowest rated class of bonds and are typically in default, with little prospect for recovery of principal or interest.

WR: withdrawn rating.

P: provisional.

Standard & Poor's Ratings
Investment Grade

AAA: the best quality borrowers, reliable and stable (many of them governments).

AA: quality borrowers, a bit higher risk than AAA.

A: economic situation can affect finance.

BBB: medium class borrowers, which are satisfactory at the moment.

Non-Investment Grade

BB: more prone to changes in the economy.

B: financial situation varies noticeably.

CCC: currently vulnerable and dependent on favourable economic conditions to meet commitments.

CC: highly vulnerable, very speculative.

C: highly vulnerable, perhaps in bankruptcy or in arrears but still continuing to pay out on obligations.

CI: past due on interest.

R: under regulatory supervision due to the company's financial situation.

SD: has selectively defaulted on some obligations.

D: has defaulted on obligations and S&P believes that the company will generally default on most or all obligations.

NR: not rated.

Financial Statements

Report of the Directors

for the year ended 31 December 2010

Introduction and Contents

The Directors present their report together with the audited financial statements of City Merchants High Yield Trust plc ('the Company') for the year ended 31 December 2010. The Report of the Directors incorporates the Business Review and includes the Corporate Governance Statement. It expands on the following areas:

Nature of the Company

The Company was incorporated and registered in England and Wales on 27 September 1991 as a public limited company, registered number 2649592.

The Company is an Investment Company as defined by section 833 of the Companies Act 2006 and operates as an Investment Trust in accordance with section 1158 of the Corporation Tax Act 2010 ('CTA') (previously section 842 of the Income and Corporation Taxes Act 1988 ('ICTA')). HM Revenue & Customs have approved the Company's status as an investment trust in respect of the year ended 31 December 2009, subject to there being no subsequent enquiry under Corporation Tax Self Assessment. In the opinion of the Directors, the Company has subsequently conducted its affairs so as to enable it to maintain such approval. The Board seeks to ensure that the Company is managed in such a way that it will continue to qualify as an investment trust under the provisions of section 1158 of the CTA.

Investment Policy and Objective

Investment objective

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 seeks also to enhance total returns through capital appreciation generated by investments which have equity-related characteristics.

Investment style

The Company is actively managed and, as investment manager, Invesco Asset Management Limited (the 'Manager') has broad discretion to invest the Company's assets to achieve its investment objective. The Manager seeks to ensure that the 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 the portfolio. The Company is willing to 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 the Company's total assets is comprised of a relatively small number of investments).

Investment limits

- The Company 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% of total assets.
- Investments in equities may be made up to an aggregate limit of 20% 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% of the value of the Company's investments at the time a new investment is made.
- Investments in unlisted investments will not exceed 10% of the Company's total assets for individual holdings and 25% in aggregate of total assets at the time a new investment is made.

Derivatives and currency hedging

The Company may enter into derivative transactions (including options, futures, contracts for difference, credit derivatives and interest rate swaps) for the purposes of efficient portfolio management. The Company will not enter into derivative transactions for speculative purposes.

Efficient portfolio management may include reduction of risk, reduction of cost and enhancement of capital or income through transactions designed to hedge all or part of the portfolio, to replicate or gain synthetic exposure to a particular investment position where this can be done more effectively or efficiently through the use of derivatives than through investment in physical securities or to transfer risk or obtain protection from a particular type of risk which might attach to portfolio investments.

The Company may hedge against exposure to changes in currency rates to the full extent of any such exposure.

Gearing

The Company's gearing policy is determined by the Board. The level of gearing may be varied from time to time in the light of prevailing circumstances subject to a maximum of 30% of the Company's total assets at any time.

Company Business

A review of the Company's business is provided in the Chairman's Statement on pages 4 and 5 and in the Manager's Investment Report on pages 6 to 8.

The Board does not at present envisage any significant changes in the business of the Company. No important events affecting the Company have occurred since the end of its financial year.

Life of the Company

In accordance with the Articles of Association of the Company, the Directors must convene an Extraordinary General Meeting to be held after 31 May and on or before 30 June in each year, at which an Extraordinary Resolution is proposed to wind up the Company, unless an Ordinary Resolution is passed at or before the Annual General Meeting of the Company ('AGM') held in that year releasing the Directors from such obligation.

At the forthcoming AGM Ordinary Resolution 4 will be proposed to ask Shareholders' approval for the Company to continue its life as an investment trust.

Report of the Directors
continued

Share Capital and Rights Attaching to the Company's Shares

At 31 December 2010, the Company's issued share capital consisted of 72,799,105 (2009: 72,799,105) ordinary shares of 2p each, allotted and fully paid.

Under the Company's Articles of Association, any share in the Company may be issued with such rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, as the Company may from time to time by ordinary resolution determine (or, in the absence of any such determination, as the Directors may determine).

At a general meeting of the Company every member has one vote on a show of hands and on a poll one vote for each share held. The notice of general meeting specifies deadlines for exercising voting rights either by proxy or present in person in relation to resolutions to be passed at a general meeting.

No shareholder, unless the Board decides otherwise, is entitled to attend or vote either personally or by proxy at a general meeting or to exercise any other right conferred by being a shareholder if he or any person with an interest in shares has been sent a notice under section 793 of the Companies Act 2006 (which confers upon public companies the power to require information with respect to interests in their voting shares) and he or any interested person has failed to supply the Company with the information requested within 14 days after delivery of that notice. The Board may also decide that no dividend is payable in respect of those default shares and that no transfer of any default shares shall be registered. These restrictions end seven days after receipt by the Company of a notice of an approved transfer of the shares or all the information required by the relevant section 793 notice, whichever is the earlier.

The Directors may refuse to register any transfer of any share which is not a fully-paid share, although such discretion may not be exercised in a way which the Financial Services Authority regards as preventing dealings in the shares of the relevant class or classes from taking place on an open or proper basis. The Directors may also refuse to register any transfer of a share in favour of more than four persons jointly.

The Company is not aware of any other restrictions on the transfer of shares in the Company other than certain restrictions that may from time to time be imposed by laws and regulations (for example, insider trading laws).

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities or voting rights.

Share Valuations

On 31 December 2010 the mid-market price and the net asset value per 2p ordinary share were 173p and 168.98p respectively. The comparative figures on 31 December 2009 were 158.0p and 156.69p.

VAT on Management Fees

The Board expects the Company to receive further refunds of VAT and interest thereon for earlier periods from 1990 to the 2005 merger date from the previous manager, Midas Capital (who acquired Exeter Fund Managers). However, the amounts involved and the timing of receipts continue to remain uncertain.

Key Performance Indicators

The Board reviews performance by reference to a number of Key Performance Indicators which include the following:

- Asset Performance
- Dividends
- Premium/Discount
- Total Expense Ratio

Asset Performance

As the Company's objective is to achieve both high income and capital growth, the performance is best measured in terms of total return. There is no stock market index against which the Company's performance may be measured with any degree of relevance. Therefore, the Board makes reference to the total return of the FTSE Government Securities – All Stocks Index and the FTSE All-Share Index as well as peer group data when discussing shareholders' returns.

The total return per ordinary share was 15.5% over the course of the year, compared with a rise of 7.2% in the total return of the FTSE Government Securities – All Stocks Index and a rise of 14.5% in the total return of the FTSE All-Share Index.

Dividends

The financial results for the year ended 31 December 2010 are shown in the income statement.

The following interim dividends have been paid to shareholders:

- 2p per share paid on 28 May 2010 to shareholders on the register on 30 April 2010;
- 3p per share paid on 27 August 2010 to shareholders on the register on 30 July 2010;
- 3p per share paid on 30 November 2010 to shareholders on the register on 29 October 2010; and
- 3p per share paid on 28 February 2011 to shareholders on the register on 28 January 2011.

In order for the Company to comply with s.842 ICTA, a further 1p per share in respect of the year ended 31 December 2009 was paid on 28 May 2010 to shareholders on the register on 30 April 2010. Details of dividends proposed and paid are shown in note 8 to the financial statements.

Premium/Discount

The Board monitors the price of the shares in relation to their net asset value and the premium/discount at which the Company's shares trade. During the year, the share price varied from a premium of 5.7% to a discount of 6.1%. At the year-end, the premium stood at 2.4% (2009: premium of 0.8%). To enable the Board to take action to deal with any significant overhang or shortage of shares in the market, it seeks approval from shareholders every year to buy back and issue shares. This may assist in the management of the premium or discount but the primary reason for buying back or issuing shares is to enhance investor value.

Total Expense Ratio ('TER')

The expenses of managing the Company are carefully monitored by the Board and the TER provides a guide to the effect on performance of the annual operating costs. The Board reviews all expenditure using an annual budgetary process. The TER for the year was 1.1% (2009: 1.2%) based on management fees and other expenses (excluding any VAT refunds) of £1,316,000 (2009: £1,012,000) and reflects both the budgetary controls and the increase in the assets under management for the year.

Main trends and factors likely to affect the future development, performance and position of the Company's business

As City Merchants Yield Trust plc is an investment company, details of the main trends and factors likely to affect the future development, performance and position of the Company's business can be found in the Manager's Investment Report on pages 6 to 8. Further details as to the risks affecting the Company are set out below under 'Principal Risks and Uncertainties'.

Report of the Directors
continued

Principal Risks and Uncertainties

The principal risk factors relating to the Company can be divided into the following areas:

Investment Policy (incorporating the Investment Objective) and Process

The Company's investment objective is described on page 1. There is no guarantee that the Company's investment objective will be achieved or will provide the returns sought by the Company.

Portfolio performance is substantially dependent on the performance of fixed-interest and high-yielding stocks in the UK and elsewhere in the Company's investment universe. These stocks are particularly influenced by prevailing interest rates, government monetary policy and by demand for income. The portfolio managers strive to maximise both capital growth and high income from the investments and the Board naturally recognises the external influences on portfolio performance.

As part of the Company's overall strategy, the Board continues to seek to manage the Company's affairs so as to maximise returns for shareholders. The longer-term aim is to continue to increase the size of the Company by a combination of growth in underlying asset values and by the issue of additional equity capital. The Directors believe that this should continue to make the Company's shares attractive to a broad spectrum of investors and improve liquidity.

Risk management is an integral part of the investment management process. The Manager effectively controls risk by ensuring that the Company's portfolio is appropriately diversified. In-depth and continual analysis of the fundamentals of all holdings should give the Manager a full understanding of the financial risks associated with any particular stock.

Market Movement and Portfolio Performance

The majority of the Company's investments are traded on a number of the world's major securities markets. The principal risk for investors in the Company is of a significant fall in the markets and/or a prolonged period of decline in the markets relative to other forms of investment. The value of investments held within the portfolio is influenced by many factors including the general health of the world economy, interest rates, inflation, government policies, industry conditions, political and diplomatic events, tax laws and environmental laws and by changing investor demand. The Manager strives to maximise the return from the investments held but these investments are influenced by market conditions and the Board acknowledges the effects of external influences on portfolio performance.

The performance of the Manager is carefully monitored by the Board and the continuation of the Manager's mandate is reviewed each year. The Board has established guidelines to ensure that the investment policy that has been approved is pursued by the Manager. The Board and the Manager maintain an active dialogue with the aim of ensuring that the market rating of the Company's shares reflects the underlying NAV and that buy back and issuance facilities help the management of this process.

For a fuller discussion of the economic and market conditions facing the Company and the current and future performance of the portfolio of the Company, see both the Chairman's Statement and Manager's Investment Report on pages 4 and 5 and 6 to 8 respectively.

High-Yield Fixed-Interest Securities

High-yield fixed-interest securities are subject to credit, interest rate and liquidity risks. Adverse changes in the financial position of an issuer or in general economic conditions may impair the ability of the issuer to make payments of principal and interest or may cause the liquidation or insolvency of an issuer.

The majority of the Company's portfolio currently consists of non-investment-grade securities. To the extent that the Company invests in non-investment-grade securities, the Company may realise a higher current yield than the yield offered by investment-grade securities. On the other hand, investments in such securities involve a greater volatility of price and a greater risk of default by the issuers of such securities, with consequent loss of interest payment and principal. Non-investment-grade securities are likely to have greater uncertainties of risk exposure to adverse conditions and will be speculative with respect to an issuer's capacity to meet interest payments and repay principal in accordance with its obligations. A lack of liquidity in non-investment-grade securities may make it difficult for the Company to sell those securities at or near their purported value.

Further details of the risk management policies and procedures as they relate to the financial assets and liabilities of the Company are explained on pages 61 to 68 in note 18 to the financial statements.

Gearing

Performance may be geared by means of a bank credit facility. There is no guarantee that the Company's credit facility would be renewable at maturity on terms acceptable to the Company. If it were not possible to renew this facility or replace it with another, the amounts owing by the Company would need to be funded by the sale of investments.

Gearing levels may change from time to time in accordance with the Manager's and the Board's assessment of risk and reward. As a consequence, any reduction in the value of the Company's investments may lead to a correspondingly greater percentage reduction in its net asset value (which is likely to affect the Company's share price adversely). Any reduction in the number of shares in issue (for example, as a result of buy backs) will, in the absence of a corresponding reduction in borrowings, result in an increase in the Company's gearing.

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. There is a risk that the return on a derivative does not exactly correlate to the returns on the underlying investment, obligation or market sector being hedged against. If there is an imperfect correlation, the Company may be exposed to greater loss than if the derivative had not been entered into.

Regulatory and Tax Related

The Company is subject to various laws and regulations by virtue of its status as a company registered under s833 of the Companies Act 2006 as an investment trust and its listing on the London Stock Exchange. A breach of s1158 CTA (previously s842 ICTA) could lead to the Company being subject to capital gains tax on the profits arising from the sale of its investments. A serious breach of other regulatory rules may lead to suspension from the London Stock Exchange, a fine or a qualified Audit Report. Other control failures, either by the Manager or any other of the Company's service providers, may result in operational or reputational problems, erroneous disclosures or loss of assets through fraud as well as breaches of regulations.

The Manager reviews the level of compliance with s1158 CTA and other financial regulatory requirements on a regular basis. All transactions, income and expenditure are reported to the Board. The Board regularly considers all perceived risks and the measures in place to control them. The Board ensures that satisfactory assurances are received from service providers. The Manager's Compliance and Internal Audit Officers produce regular reports for review by the Company's Audit Committee.

Resources: Reliance on Third Party Providers

The Company is an investment company which outsources its management, company secretarial and administrative functions. It has no employees and the Directors are all non-executive. The Company is therefore reliant on other parties for the performance of its functions and the quality of its operations. Through the contractual arrangements in place the full range of services required is available to the Company. The most significant contracts are with the Manager, to whom responsibility both for the management of the Company's portfolio and for the provision of company secretarial and administrative services are delegated. The Manager in turn has contractual arrangements with third parties to act as Custodian and Registrars respectively.

Report of the Directors
continued

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. Such failure could also expose the Company to reputational risk. In particular, the Manager may be exposed to the risk that litigation, misconduct, operational failures, negative publicity and press speculation, whether valid or not, will harm its reputation. Any damage to the reputation of the Manager could result in potential counterparties and third parties being unwilling to deal with the Manager and by extension the Company. That could also have an adverse impact on the ability of the Company to pursue its investment policy successfully.

The Board seeks to manage these risks in a number of ways. In particular the Board reviews the performance of the Manager formally at every board meeting and otherwise as appropriate. The day-to-day management of the portfolio is the responsibility of the portfolio managers to whom the Board has given wide discretion to operate within set guidelines. Any proposed variation outside those guidelines is referred to the Board and the guidelines themselves are reviewed at every board meeting. The risk that one of the portfolio managers might be incapacitated or otherwise unavailable is mitigated by the fact that they work within and are supported by the wider Invesco Fixed Interest team. The Board has power to replace the Manager and reviews the management contracts formally once a year.

The Manager reviews the performance of all third party providers regularly through formal and informal meetings, the results of which are reported to and reviewed by the Board. The contractual arrangements which govern relationships with third party providers, including the Registrars and the Custodian, and with the Corporate Broker are also reviewed by the Board in relation to agreed service standards on a regular basis and, more formally, on an annual basis.

The Ordinary Shares

The market price of, and the income derived from, the Company's ordinary shares can fluctuate and may go down as well as up. The market value may not always reflect the NAV per ordinary share. The market price of an ordinary share may therefore trade at a discount to its NAV which is published daily. As at 31 December 2010, the ordinary shares of the Company traded at a premium of 2.4%. Past performance of the Company is not necessarily indicative of future performance.

The market value of the ordinary shares will be affected by a number of factors, including their dividend yield from time to time, prevailing interest rates and supply and demand for those shares, along with wider economic factors and changes in law, including tax law, and political factors. The market value of an ordinary share may therefore vary considerably from its underlying NAV. There can be no guarantee that any appreciation in the value of the Company's investments will occur and investors may not get back the full value of their investment.

Although the ordinary shares are listed on the Official List and admitted to trading on the London Stock Exchange's main market for listed securities, it is possible that there may not be a liquid market in the ordinary shares and shareholders may have difficulty in selling them.

Shareholder Relationships

Through the annual and half-yearly financial reports, interim management statements, monthly factsheets, the publication of a daily net asset value, the Company's website, the AGM and other methods, the Board endeavours to ensure that shareholders understand the Company's investment policy and objective and that the Board, both independently and through the Manager, reviews its policy and objective in the light of feedback from shareholders. The Board monitors and reviews shareholder communications on a regular basis.

Advisers and Principal Service Providers

The Company's main supplier of services is the Manager which provides investment management, company secretarial and administrative services.

The Company also has the following advisers:

- Winterflood Investment Trusts as Corporate Broker;
- Ernst & Young LLP as Auditors;
- Ashurst LLP as Solicitors;
- Capita Registrars as Registrars; and
- The Bank of New York Mellon as Custodian.

Further details of the advisers and principal service providers can be found on page 16.

Financial Position

Assets

At 31 December 2010, the Company's net assets were valued at £123 million (2009: £114 million). These included a portfolio of fixed-interest and other investments and cash less net current liabilities.

The Company's ability to pay dividends has been enhanced by accumulated substantial brought-forward surplus management expenses which eliminate the Company's liability to corporation tax. At 31 December 2010 these amounted to £14,394,000 (2009: £22,063,000). The Company expects to be able to continue to offset these expenses against taxable income arising on the portfolio. Accordingly, the Company has a deferred tax asset valued by the Directors at £3.9 million (2009: £5 million) based on indicated rates of corporation tax and the amount of surplus management expenses at the relevant time.

The benefit to the income statement for the year ended 31 December 2010 was £2.1 million (2009: £1.5 million). This benefit is estimated to continue around this level based on the current portfolio for the next two years, at which time the brought-forward expenses are projected to be fully used. However, at the same time the income statement is for the first time adversely impacted by the reversal of the deferred tax asset and this impact is the equivalent of the recognised unused expenses which have been used in the year - ie the equivalent of the benefit. The net effect of these two items in the year is thus nil (2009: not applicable). In summary, for this and an estimated further two years the Company will suffer a tax charge of the equivalent of unwinding the deferred tax asset.

Liabilities

The Company has a one-year multicurrency revolving credit facility with The Bank of New York Mellon of £20 million falling to be renewed on 10 November 2011. Available currencies are sterling, euros and US dollars. As at 31 December 2010, no drawings were outstanding under the facility (2009: outstandings of £11.1 million).

Rates of interest applicable to drawings under the credit facility are based on the interbank offered rate for the currency in question. All currency drawings are covered by investments in matching currencies to manage exposure to exchange rate fluctuations. Financial covenants under the terms of the facility require that the Company's adjusted net asset value, as defined, should not fall below £50 million and that total borrowings should not exceed 30% of adjusted net asset value. The Company complied with these covenants during the year under review.

Gearing policy is under the control of the Board subject to a gearing limit of 30% of total assets. Within that limit, the gearing level is regularly reviewed and may be varied from time to time in the light of prevailing circumstances.

Social and Environmental Policies

As an investment trust company with no employees, property or activities outside investment management, environmental policy has limited application.

However, the Company's policy is that, subject to an overriding requirement to pursue the best financial interests of the Company and its shareholders, the Manager should take account of social,

Report of the Directors
continued

environmental and ethical factors in making and holding investments and in the use of voting powers conferred by such investments.

The Manager considers various other factors when evaluating potential investments. Some are financial ratios and measures, such as free cash flow, earnings per share and price-to-book value. Others are more subjective indicators which rely on first-hand research; for example quality of management, innovation and product strength.

At the AGM in 2008, the Directors received approval from the majority of the Company's shareholders to send or supply documents or information to shareholders in electronic form (e.g. by e-mail) or by means of a website. This delivers environmental benefits through reduced use of paper and of the energy required for its production and distribution.

Substantial Holdings in the Company

At 28 February 2011, the Company had been notified of the following holdings of 3% and over of the Company's ordinary share capital carrying unrestricted voting rights:

	Holding	%
Invesco Perpetual	7,101,392	9.8
Charles Stanley, stockbrokers	4,214,081	5.8
Brewin Dolphin, stockbrokers	3,614,817	4.9
Alliance Trust Savings	3,318,007	4.6
Legal & General Investment Management	2,714,843	3.7
Rathbones	2,469,939	3.4
Scottish Widows	2,328,516	3.2

Special Business at the Annual General Meeting ('AGM')

Shareholders will find on pages 71 to 74 the notice of the forthcoming AGM to be held on 26 May 2011. In addition to the ordinary business of the meeting, five resolutions are proposed as special business. These will be proposed as two Ordinary Resolutions and three Special Resolutions as follows:

Continuation Vote

With Ordinary Resolution 4 the Directors seek to be released from their obligation under the Company's Articles of Association to convene an Extraordinary General Meeting to be held on or before 30 June 2011 at which an Extraordinary Resolution would be proposed to wind up the Company.

Authority to Allot Shares

By law, Directors are not permitted to allot new shares (or to grant rights over shares) unless authorised to do so by shareholders. In addition, Directors require specific authority from shareholders before allotting new shares (or granting rights over shares) for cash without first offering them to existing shareholders in proportion to their holdings.

Resolution 5 is an Ordinary Resolution which seeks to renew the Directors' authority to allot up to 10% of the Company's issued ordinary share capital. Resolution 6 is a Special Resolution which seeks authority to issue new ordinary shares for cash, pursuant to the authority sought by Resolution 5, disapplying pre-emption rights, either: (i) in connection with a rights issue; or (ii) otherwise than in connection with a rights issue, of up to an aggregate nominal amount of £145,598 (which is equivalent to 7,279,910 ordinary shares, this being approximately 10% of the issued share capital). This will allow ordinary shares to be issued to new shareholders without having to be offered to existing shareholders first, thus broadening the shareholder base of the Company.

The two Resolutions provide the Directors with a degree of flexibility to increase the size of the Company by the issue of new shares, should any favourable opportunities arise to the advantage of shareholders. The Directors would not use the authority so as to dilute the interests of existing shareholders by issuing shares at a price which is less than the NAV attributable to the shares. These authorities will expire at the AGM in 2012.

Authority to Buy Back Ordinary Shares

The Directors were granted authority at last year's AGM to buy back shares for cancellation. During the year, no shares were bought back and cancelled.

The Directors are, however, seeking to renew this authority and Special Resolution 7, a resolution to purchase in the market for cancellation up to 10,912,585 ordinary shares (being 14.99% of the issued ordinary share capital as at 28 March 2011), will be proposed at the AGM. This authority, if approved, will expire at the next AGM, unless renewed. The Directors intend that the authority to purchase the Company's shares will only be exercised when such a purchase would result in an increase in the NAV per share and is in the best interests of shareholders generally.

Purchases of ordinary shares will only be made through the market for cash at prices below the prevailing NAV per ordinary share. Under the Listing Rules of the Financial Services Authority, the maximum price which can be paid is 5% above the average of the middle market values of the ordinary shares for the five business days before the purchase is made. The minimum price which may be paid is 2p per share, this being the nominal value of a share. In making purchases the Company will deal only with member firms of the London Stock Exchange.

The Company will finance the purchase of ordinary shares by using cash or by selling securities in the Company's portfolio.

Calling General Meetings at 14 days' notice

The EU Shareholder Rights Directive that came into effect on 3 August 2009 amended the Companies Act 2006 so that the notice period for a general meeting is 21 days (previously 14). However, companies are able to propose a special resolution each year permitting them, if passed, to continue to call general meetings (other than AGMs) on a 14 day notice period if they allow voting by electronic means.

With Special Resolution 8 the Board again seeks shareholders' authority to call any general meetings other than AGMs on a 14 day notice period, should that be necessary. If approved, this authority will need to be renewed at every AGM of the Company. It is intended that this flexibility will be used only for non-routine business and where it is in the interests of shareholders as a whole.

Investment Management

The Manager acts as the Company's investment manager under an agreement dated 21 November 2005 ("the Management Agreement") , terminable at any time by either party giving no less than three months' prior written notice and subject to earlier termination without compensation in the event of a material breach of the agreement or the insolvency of either party as provided for therein.

The management fee is payable quarterly in arrear and is equal to 0.1875% of the value of the Company's total assets under management less current liabilities at the end of the relevant quarter. Until 1 October 2008 the fee was computed on the basis that current liabilities excluded short-term borrowings undertaken for investment purposes.

The Manager's Responsibilities

The Directors have delegated to the Manager the responsibility for the investment management activities of the Company, for seeking and evaluating investment opportunities and for analysing the accounts of investee companies. The Manager has full discretion to manage the assets of the Company in accordance with the Company's stated objectives and policies as determined from time to time by the Board. Within the guidelines specified by the Board, the Manager has discretion to make purchases and sales, make and withdraw cash deposits, enter into underwriting commitments and exercise all rights over the investment portfolio. The Manager also advises on currency exposures and borrowings.

Report of the Directors
continued

Under an Administration Agreement dated 21 November 2005, the Manager also provides full administration, company secretarial and accounting services to the Company, ensuring that the Company complies with all legal, regulatory and corporate governance requirements and officiating at Board meetings and shareholders' meetings. The Manager additionally maintains complete and accurate records of the Company's investment transactions and portfolio and all monetary transactions from which half-yearly and annual financial reports as well as interim management statements are prepared.

Assessment of the Manager

The performance of the Manager, both as the Company's investment manager and as provider of all company secretarial and administrative arrangements, is reviewed annually by the Board functioning as the Management Engagement Committee. The ongoing requirements of the Company and services received are assessed with reference to key performance indicators as set out on pages 24 and 25. Performance is reviewed by reference to the FTSE Government Securities – All Stocks Index and the FTSE All-Share Index and to peer group performance. The quality and timeliness of reports to the Board is also taken into account and the overall conduct of the Company's affairs by the Manager is considered. Based on its recent review of activities, the Board believes that the continuing appointment of Invesco Asset Management Limited remains in the best interests of the Company and its shareholders.

Directors

Directors are elected by ordinary resolution at a general meeting of ordinary shareholders. The Directors have the power to appoint a Director during the year but any person so appointed must stand for election by shareholders at the next AGM.

Subject to its Articles of Association and relevant statutory law and to such direction as may be given by the Company in general meeting by special resolution, the business of the Company is managed by the Directors, who may exercise all powers of the Company which are not required to be exercised by the Company in general meeting.

The present members of the Board, all of whom served throughout the year, are listed on page 15, together with their biographies.

In accordance with the Company's Articles of Association, at every AGM there shall retire from office any Director who shall have been a Director at each of the preceding two AGMs and who was not appointed or re-appointed by the Company in general meeting since. A retiring Director is eligible for re-appointment. No Director will need to stand for re-appointment at the forthcoming AGM.

Messrs Nicholson, King and MacLennan having been re-elected, and Ms Robbins having been elected, at the AGM in 2009 will not need to retire and stand for re-election before the AGM in 2012 and Mr FitzGerald, having been re-elected at the AGM in 2010, will not need to retire and stand for re-election before the AGM in 2013.

All Directors are independent of the Manager.

The following table sets out the number of Directors' meetings (including committee meetings) held during the year and the number of meetings attended by each Director:

	Board Meetings		*Audit Committee Meetings*	
	Held	*Attended*	*Held*	*Attended*
Clive Nicholson (Chairman)	4	4	2	2
Robin Baillie (retired on 2 June 2010)	2	2	1	1
Christopher FitzGerald	4	4	2	2
Richard King	4	4	2	2
Kenneth MacLennan	4	4	2	2
Winifred Robbins	4	4	2	2

Apart from the Board and Audit Committee meetings detailed above, there were a number of meetings held by Committees of the Board to approve the declaration of dividends and deal with other *ad hoc* items.

Directors' Interests

The beneficial interests of the Directors in the ordinary share capital of the Company are set out below:

	31 December 2010	*1 January 2010*
Clive Nicholson (Chairman)	**49,500**	49,500
Robin Baillie (retired on 2 June 2010)	**n/a**	18,957
Christopher FitzGerald	**12,000**	12,000
Richard King	**43,179**	43,179
Kenneth MacLennan	**50,000**	50,000
Winifred Robbins	**62,631**	62,631

Save as aforesaid, no Director had any interests, beneficial or otherwise, in the shares of the Company during the year. No further changes to these holdings have been notified up to the date of this report.

Disclosable Interests

No Director was a party to, or had any interests in, any contract or arrangement with the Company at any time during the year or at the year-end. The Company has entered into a Deed of Indemnity with Directors under which Directors are indemnified by the Company for, *inter alia*, costs incurred in defending claims made by third parties.

Deed of Indemnity

Under the terms of the Indemnity, a Director may be indemnified out of the assets of the Company against all costs, expenses, losses and liabilities which he may sustain or incur in or about the actual or purported discharge of his duties or the actual or purported exercise of his powers or discretions and/or otherwise in relation thereto or in connection therewith as a Director of the Company. This includes any liability incurred by the Director in disputing, defending, investigating or providing evidence in connection with any actual or threatened or alleged claims, demands, investigations or proceedings whether civil, criminal or regulatory. Directors will continue to be indemnified under the terms of the indemnity notwithstanding that they may have ceased to be Directors of the Company.

However, Directors will not be entitled to be indemnified for any liability to the Company, for fines payable to regulatory authorities in respect of non-compliance with any requirement of a regulatory nature, for fines imposed in criminal proceedings, for defending any criminal proceedings in which they are convicted or in defending any civil proceedings brought by the Company in which judgement is given against them or in connection with an application for relief in which the court refuses to grant relief. In the event that final judgement is given against a Director in relation to any claim brought by the Company or in any criminal proceedings, the Director will repay to the Company in respect of such claim any amount received from the Company under the indemnity. The indemnity does not apply to the extent that a liability is recovered by the Director from any insurers or if it is prohibited by the 2006 Act or is otherwise prohibited by law.

Conflicts of Interest

The 2006 Act sets out directors' general duties which largely codify the existing law but with some changes. Under the 2006 Act a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the company's interests. The requirement is very broad and could apply, for example, if a director becomes a director of another company or a trustee of another organisation. The 2006 Act allows directors of public companies to authorise conflicts and potential conflicts, where appropriate, where the articles of association contain a provision to this effect. The 2006 Act also allows the articles of association to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty.

Report of the Directors

continued

The Articles of Association of the Company give the Directors authority to approve such situations and include other provisions to allow conflicts of interest to be dealt with in a similar way to the current position.

There are safeguards which will apply when Directors decide whether to authorise a conflict of potential conflict. First, only Directors who have no interest in the matter being considered will be able to take the relevant decision and, secondly, in taking the decision the Directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. The Directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

The Register of Potential Conflicts of Interest is kept in the Registered Office of the Company. Currently, there are no recorded potential conflicts of interest of any of the Directors with the Company. Directors will advise the Company Secretary as soon as they become aware of any potential conflicts of interest. Directors who have potential conflicts of interest will not take part in any discussions which relate to any of their potential conflicts.

It is the Board's intention to continue to report annually on the Company's procedures for ensuring that the Board's powers of authorisation of conflicts are operated effectively and that the procedures have been followed.

Directors' and Officers' Liability Insurance

The Company maintains a Directors' and Officers' liability insurance policy.

Report of the Audit Committee

The Audit Committee is responsible to the Board for reviewing each aspect of the financial reporting process, the Manager's systems of internal control and the management of financial risks, the audit process, relationships with the external auditors, the Company's processes for monitoring compliance with laws and regulations and its code of business conduct and for making recommendations to the Board.

The Company's internal financial controls and risk management systems have been reviewed with the Manager against risk parameters approved by the Board. The Audit Committee has also received satisfactory reports on the Manager's internal operations from the Manager's Compliance and Internal Audit Officers.

The audit programme and timetable were drawn up and agreed with the external Auditors (the 'Auditors') in advance of the Company's financial year-end. At this stage, matters for audit focus were discussed and agreed. These matters were given particular attention during the audit process and, among other matters, they were reported on by the Auditors in their report to the Audit Committee. The audit review was considered by the Audit Committee and discussed with the Auditors and the Manager prior to approving and signing the financial statements.

The Audit Committee reviewed the financial statements for the year to 31 December 2010 with the Manager and the Auditors at the conclusion of the audit process. There were no matters of significance arising from the audit that needed to be brought to the Board's attention.

The Audit Committee recommended approval by the Board of an audit fee of £25,900 exclusive of expenses and VAT for the year. Non-audit work undertaken on behalf of the Company by the auditors comprised work on the Company's taxation affairs, for which a fee of £6,000 has been accrued. All fees are shown exclusive of VAT.

Audit Information

The Directors who held office at the date of the approval of the Report of the Directors confirm that, so far as they are aware, there is no relevant audit information of which the Company's Auditors are unaware; and each Director has taken the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the 2006 Act.

Auditors

The Audit Committee has considered the independence of the Auditors and the objectivity of the audit process and is satisfied that Ernst & Young LLP has fulfilled its obligations to shareholders and as independent auditors to the Company.

A resolution proposing the re-appointment of Ernst & Young LLP as the Company's auditors and authorising the Directors to determine their remuneration will be put to the forthcoming AGM.

Individual Savings Account ('ISA')

The ordinary shares of the Company are qualifying investments under applicable ISA regulations.

Supplier Payment Policy

It is the Company's policy to obtain the best terms for all business, including purchases of investments, and to abide by those agreed terms. It is the Company's policy to settle all investment transactions according to settlement periods established for the relevant markets. The Company had no trade creditors at 31 December 2010 (2009: none).

Donations

The Company made no charitable or political donations during the year.

Going Concern

The financial statements have been prepared on a going concern basis. As previously explained, an ordinary resolution to release the Directors from their obligation to convene an Extraordinary General Meeting in 2011 to wind up the Company is to be proposed at the Annual General Meeting on 26 May 2011. After making enquiries, the Directors have no reason to believe that such a resolution will not receive shareholders' approval.

The Directors further consider that the going concern basis 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.

Accordingly, the accounts do not include any adjustments which might arise from the reconstruction or liquidation of the Company.

Corporate Governance Statement

Corporate Governance Principles

The Board is committed to maintaining the highest standards of Corporate Governance and is accountable to shareholders for the governance of the Company's affairs.

In February 2006, the Financial Reporting Council ('FRC') first confirmed that AIC member companies who report against the AIC Code and who follow the AIC Guide would meet their obligations in relation to the Combined Code on Corporate Governance and paragraph 9.8.6 of the Listing Rules (relating to additional items to be included in the annual financial report). On 20 February 2009 the FRC provided the AIC with an updated endorsement to cover the 2009 edition

Report of the Directors

continued

of the AIC Code. This statement describes how the principles of the AIC Code and Guide have been complied with in the conduct of the affairs of the Company. Any reference to the 'AIC Code' in this statement includes references to the AIC Guide. Copies of the AIC Code and AIC Guide can be found on the AIC's website at *www.theaic.co.uk*

The Board of City Merchants High Yield Trust plc has considered the principles and recommendations of the AIC Code by reference to the AIC Guide. The AIC Code, as explained by the AIC Guide, addresses all the principles set out in Section 1 of the Combined Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to City Merchants High Yield Trust plc.

The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the Combined Code), will provide appropriate information to shareholders. The Company has complied with the recommendations of the AIC Code and the relevant provisions of Section 1 of the Combined Code, except as set out below.

The Combined Code includes provisions relating to the role of the chief executive and a senior independent director, executive directors' remuneration and the need for an internal audit function. For the reasons set out in the AIC Guide, and in the preamble to the Combined Code, the Board considers these provisions are not relevant to the position of City Merchants High Yield Trust plc, being an externally-managed investment company. The Company has therefore not reported further in respect of these provisions.

The terms of reference for the Board and the Audit Committee are reviewed and updated periodically to bring them in line with latest best practice and to ensure compliance with the AIC Code. The Company's Corporate Governance procedures are considered regularly by the Board and amended as necessary.

In October 2010, a new edition of the AIC Code was published, which addresses the governance issues relevant to investment companies and enables boards to satisfy any requirements they may have under the new UK Corporate Governance Code. Both the new UK Corporate Governance Code and the new 2010 AIC Code apply to companies whose financial year starts on or after 29 June 2010. City Merchants High Yield Trust plc will report against these new Codes at the end of the next financial year.

Directors

Independence

The Board currently consists of five Directors, all of whom are non-executive and all of whom the Board regards as independent of the Company's Manager.

All Directors are equally responsible under the law for the proper conduct of the Company's affairs, and for ensuring that their policies are in the best interests of shareholders, creditors and suppliers to the Company.

Chairman

The Chairman of the Board is Clive Nicholson, a non-executive and independent Director who has no conflicting relationships. As the Company is an investment trust and sub-contracts its investment management and administration, its Board consists exclusively of non-executive Directors and it does not have a Chief Executive Officer.

Clive Nicholson was a Director of the Company's predecessor from 1 January 2005 and has been a Director of the Board since 21 November 2005 and Chairman since 1 January 2007. Like all Board members, he is subject to a formal performance appraisal every three years, with discussion between the Chairman and Directors being the medium for performance evaluation in the intermediate years. The Board has confirmed that Mr Nicholson's performance continues to be effective.

Senior Non-Executive Director

The Company's Senior Non-Executive Director was Robin Baillie. Following his retirement on 2 June 2010, no new Senior Non-Executive Director was appointed.

The Board takes the view that the nature of an investment trust and the relationship between the Board and the Manager are such that it is no longer necessary to identify a senior non-executive Director other than the Chairman. All Directors are available to shareholders if they have concerns which cannot be resolved through contact with the Chairman or the Manager or for which such contact is inappropriate.

Board Balance

The Directors have a range of financial, business and asset management skills as well as recent and relevant experience pertinent to the direction and control of the Company. Brief biographical details of members of the Board are shown on page 15.

Board Responsibilities

Directors have a duty to promote the success of the Company, taking into consideration the likely long-term consequences of any decisions; the need to foster the Company's business relationships with its Manager and advisers; the impact of the Company's operations on the community and the environment; the desirability of the Company maintaining a reputation for high standards of business conduct; and the need to act fairly as between the shareholders of the Company.

The Directors are equally responsible under United Kingdom law for the proper conduct of the Company's affairs and for promoting the success of the Company by directing and supervising its affairs within a framework of effective controls which enable risk to be assessed and managed. In addition, the Directors are responsible for ensuring that their policies and operations are in the best interest of all of the Company's shareholders and that the best interests of creditors and suppliers to the Company are properly considered.

A formal schedule of matters reserved for decision by the Board and detailing the responsibilities of the Board has been established. The main responsibilities include: setting the Company's objectives and standards; ensuring that the Company's obligations to shareholders and others are understood and complied with; approving accounting policies and dividend policy; managing the capital structure; setting long-term objectives and strategy; assessing risk; reviewing investment performance; approving loans and borrowing and controlling risks; approving recommendations by the Audit Committee; reviewing Directors' remuneration; undertaking nomination responsibilities; and assessing the Manager on an ongoing basis. The schedule of matters reserved for decision by the Board will be available for inspection at the AGM and is otherwise available at the Registered Office of the Company and on the Manager's website at *www.invescoperpetual.co.uk/investmenttrusts*.

Through the portfolio details given in the annual and half-yearly financial reports, interim management statements and factsheets and also in the publication of daily net asset values, the Board also seeks to ensure that shareholders are provided with sufficient information in order to understand the risk/reward balance to which they are exposed by holding their shares.

The Board as a whole undertakes the responsibilities which would otherwise be assumed by committees for management engagement, nomination and remuneration:

- *Management Engagement*

  The Board as a whole operates as the Management Engagement Committee by reviewing the Investment Management and Administration Agreements annually. The performance of the Managers in respect of investment performance and administration is reviewed formally against

Report of the Directors

continued

agreed standards and reported on in the Report of the Directors under 'Assessment of the Manager' on page 3.

- *Remuneration*

  The Board as a whole operates as the Remuneration Committee by determining the Company's remuneration policy, taking into account all factors which are deemed necessary in order to ensure that members of the Board are provided with appropriate compensation and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company. The remuneration of Directors is reviewed periodically and reported on in more detail in the Directors' Remuneration Report on pages 43 to 45.

- *Nomination*

  The Board as a whole operates as the Nomination Committee by making relevant changes to the structure, size and composition of the Board as well as ensuring adequate succession planning. When appointing a new Director, the Board takes care to ensure that there is a balance of skills and experience appropriate for the requirements of the Company and that new directors have enough time available to devote to the affairs of the Company. The composition of the Board is reviewed annually as part of the appraisal of the Board, the Audit Committee and the Directors individually. Every three years this review is undertaken by an outside, impartial, agency. This is reported on in more detail under 'Board, Committee and Directors' Performance Appraisal' on page 39.

Supply of Information

To enable the Directors to fulfil their roles, the Manager through the Company Secretary ensures that all Directors have timely access to all relevant management, financial and regulatory information.

On being appointed to the Board, Directors are fully briefed as to their responsibilities and are updated throughout their term in office on industry and regulatory matters. The Manager and the Board have formulated a programme of induction training for newly-appointed Directors. They have also put arrangements in place to address ongoing training requirements of Directors which include briefings from senior members of the Manager's staff and which ensure that Directors can keep up-to-date with new legislation and changing risks.

The Board meets on a regular basis at least four times each year. Additional meetings are arranged as necessary. Regular contact is maintained between the Manager, including the portfolio managers, and the Board between formal meetings.

Board meetings follow a formal agenda, which includes a review of the investment portfolio with a report from the portfolio managers on the current investment position and outlook, performance against stock market indices and the Company's peer group, asset allocation, gearing, cash management, revenue forecasts for the financial year, marketing and shareholder relations, corporate governance, regulatory changes and industry and other issues.

The Manager's Responsibilities

The Manager is responsible for the investment decisions of the Company and for provision of company secretarial and accounting services. A statement of the Manager's Responsibilities is shown on page 31 in the Report of the Directors.

The Board has reviewed and accepted the Manager's 'whistle blowing' policy under which staff of Invesco Asset Management Limited can, in confidence, raise concerns about possible improprieties or irregularities in matters affecting the Company.

Appointment, Re-election and Tenure of Directors

No Director has a contract of employment with the Company. Directors' terms and conditions of appointment are set out in letters of appointment which are available for inspection at the Registered Office of the Company and on the Manager's website at *www.invescoperpetual.co.uk/investmenttrusts*. They will also be available at the forthcoming AGM.

The Articles of Association require that a Director shall retire and be subject to re-election at the first AGM after appointment and at least every three years thereafter. Thus, no Director serves a term of more than three years before re-election.

A Director's tenure of office will normally be a maximum of three terms of three years, except that the Board may determine otherwise if it is considered that the continued service on the Board of an individual Director is in the best interests of the Company and its shareholders. In this case, a Director serving longer than nine years will seek re-election annually.

The Articles of Association provide that the Directors may, by notice in writing, remove any Director from the Board without notice or compensation.

The Chairman confirms that the performance of all Directors continues to be effective and demonstrates commitment to the role.

Board, Committee and Directors' Performance Appraisal

The Directors recognise the importance of the AIC Code's recommendations in respect of evaluating the performance of the Board as a whole, its Committees and individual Directors. The performance of the Board, Committees and Directors has been assessed during the year in terms of:

- attendance at Board and Committee meetings;
- independence of Directors;
- the ability of Directors to make an effective contribution to the Board and Committees through the diversity of skills and experience each Director brings to their role; and
- the Board's ability to challenge the Manager's recommendations, suggest areas of debate and fix timetables for debates on the future strategy of the Company.

At the end of 2008, the Board conducted a performance evaluation with the help of a specialist agency. It was decided that formal Board performance reviews should be carried out every three years, with discussion among the Chairman and Directors being the medium for performance evaluation in the intermediate years.

Again, for the year ended 31 December 2010, the result of the evaluation process was that the Board, the Committees and the individual Directors were considered to have performed satisfactorily. The Directors are confident of their ability to continue to make effective contributions and to demonstrate commitment to their roles.

The Company Secretary

The Board has direct access to the advice and services of the Company Secretary, Invesco Asset Management Limited, which is responsible for ensuring that Board and Committee procedures are followed and that applicable rules and regulations are complied with. The Company Secretary is also responsible to the Board for ensuring timely delivery of information and reports and that the statutory obligations of the Company are met. In addition, the Company Secretary is responsible for advising the Board through the Chairman on all governance matters.

There is an agreed procedure for Directors, in the furtherance of their duties, to take legal advice at the Company's expense up to an initial cost of £5,000, having first consulted the Chairman.

The Company Secretary makes a contribution to the efficiency and effectiveness of the Board, and the smooth running of the Company. To fulfil the role, the Company Secretary keeps up-to-date with

Report of the Directors
continued

relevant legal, statutory and regulatory requirements and is also able to provide impartial advice and support to the Directors. The Company Secretary also acts as a primary point of contact for institutional and other shareholders, especially with regard to matters of corporate governance.

Accountability and Audit

The Directors' responsibilities for the Company's accounting records and financial statements are set out on page 46. The Auditors' Report appears on pages 47 and 48.

Audit Committee

The Board is supported by the Audit Committee which comprises all non-executive Directors. The Chairman of the Audit Committee is Christopher FitzGerald. The Committee has written terms of reference which clearly define its responsibilities and duties and which ensure best practice and compliance with the AIC Code. They will be available for inspection at the AGM and can be inspected at the Registered Office of the Company as well as on the Manager's website at www.invescoperpetual.co.uk/investmenttrusts.

The Audit Committee is responsible to the Board for reviewing each aspect of the financial reporting process, systems of internal control and the management of financial risks, the audit process, relationships with external auditors, the Company's processes for monitoring compliance with laws and regulations and its code of business conduct and for making recommendations to the Board. It is responsible for the appointment, re-appointment and removal of auditors as laid out in its terms of reference.

The Committee meets at least twice a year to review the internal financial and non-financial controls, accounting policies and the contents of the half-yearly and annual financial reports to shareholders. In addition, the Committee reviews the Auditors' independence, objectivity and effectiveness, the quality of the services of the service providers to the Company and, together with the Manager, reviews the Company's compliance with financial reporting and regulatory requirements as well as risk management processes. At each meeting, representatives of the Manager's Compliance and Internal Audit Departments are present. Representatives of the Auditors, Ernst & Young LLP, attend the Committee meeting at which the draft annual financial report is reviewed and are given the opportunity to speak to Committee members without the presence of representatives of the Manager.

The audit programme and timetable are drawn up and agreed with the Auditors in advance of the financial year-end. At this stage, matters for audit focus are discussed and agreed. These matters are given particular attention during the audit process and, among other matters, are reported on by the Auditors in their report to the Committee. The report is considered by the Committee and discussed with the Auditors and the Manager prior to approval and signature of the financial statements.

The Committee reviewed the financial statements for the year ended 31 December 2010 with the Manager and the Auditors at the conclusion of the audit process.

Auditors' Non-Audit Services

The Company's Auditors also provide taxation and other advisory services to the Company. The cost of providing these services is stated in note 4 to the financial statements. In the opinion of the Audit Committee, the auditors' role in providing taxation advice to the Company does not compromise their objectivity and independence in carrying out their audit function. The scope of non-audit services is reviewed by the Audit Committee and approved prior to the Auditors' engagement.

Internal Financial and Non-Financial Controls

The Directors acknowledge that they are responsible for ensuring that the Company maintains a sound system of internal financial and non-financial controls ('internal controls') to safeguard shareholders' investments and the Company's assets. Such controls have been in place throughout the year and up to the date of this report.

The Company's internal controls and risk management systems have been reviewed with the Manager against risk parameters approved by the Board. The Audit Committee has also received satisfactory reports on the Manager's internal operations from the Manager's Compliance and Internal Audit Officers. The Audit Committee is pleased to report that, as a result of this year's review, no weaknesses were found in the financial reporting process.

The Board reviews, at least annually, the effectiveness of the Company's system of internal controls, including financial, operational and compliance and risk management systems. The Company's system of internal control is designed to manage rather than eliminate risk of failure to achieve the Company's investment objective and/or adhere to the Company's investment policy and/or investment limits. This system can therefore only provide reasonable and not absolute assurance against material misstatement or loss. The Board confirms that the necessary actions are taken to remedy any significant failings or weaknesses identified from their review. There were no significant failings or weaknesses identified in the year ended 31 December 2010 and up to the date of this annual financial report.

As stated above, the Board meets regularly, at least four times a year, and reviews financial reports and performance against revenue forecasts, stock market indices and the Company's peer group. In addition, the Manager and Custodian maintain their own systems of internal controls and the Board and Audit Committee receive regular reports from the Manager's Compliance and Internal Audit Officers. Formal reports are also produced annually on the internal controls and procedures in place for secretarial and administrative, custodial, investment management and accounting activities and are reviewed by the Board. The programme of reviews is set up by the Manager and the reports are not necessarily directed to the affairs of any one client of the Manager.

The control systems are designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate the risk of failure to achieve business objectives. The Directors consider that these procedures enable the Company to comply with the Financial Reporting Council's 'Internal Control: Revised Guidance for Directors on the Combined Code'.

Internal Audit Function

The Directors have reviewed the need for the Company to establish an internal audit function but, in view of the extent of the Manager's responsibilities and given that the Manager has what the Directors believe to be effective internal audit functions, consider that such a function is not necessary.

Relations with Shareholders

Shareholder relations are given high priority by both the Board and the Manager. The principal medium by which the Company communicates with shareholders is through the half-yearly and annual financial reports, which aim to provide shareholders with a full understanding of the Company's activities and their results. This information is supplemented by the daily publication of the net asset value of the Company's ordinary shares, the monthly fact sheets and the biannual interim management statements. At each AGM, a presentation is made by the Manager following the business of the Meeting and shareholders have the opportunity to communicate directly with the Board. All shareholders are encouraged to attend the AGM.

There is a regular dialogue between the Manager and institutional shareholders to discuss aspects of investment performance, governance and strategy and to listen to shareholder views in order to help to develop an understanding of their issues and concerns. General presentations to both institutional shareholders and analysts follow the publication of the annual results. All meetings between the Manager and institutional shareholders are reported to the Board.

Report of the Directors
continued

It is the intention of the Board that the annual financial report and notice of the AGM be issued to shareholders so as to provide at least twenty working days' notice of the AGM. Shareholders wishing to lodge questions in advance of the AGM are invited to do so, either on the reverse of the proxy card or in writing to the Company Secretary at the address given on page 16. At other times, the Company responds to letters from shareholders on a range of issues.

Shareholders can also visit the Manager's investment trust website, *www.invescoperpetual.co.uk/investmenttrusts* in order to access copies of half-yearly and annual financial reports, interim management statements, shareholder circulars, factsheets, Stock Exchange Announcements and ISA and savings scheme literature. Shareholders can also access various Company reviews and information such as an overview of UK equities and the Company's share price. Finally, shareholders are also able to access copies of the Schedule of Matters Reserved for the Board, the Terms of Reference of the Audit Committee, the Directors' letters of appointment and, following any shareholders' general meetings, proxy voting results.

Institutional Voting

The Board considers that the Company has a responsibility as a shareholder towards ensuring that high standards of Corporate Governance are maintained in the companies in which it invests. The Board does not seek to intervene in daily management decisions, but aims to support high standards of governance and the Manager is encouraged, where necessary, to take the initiative and ensure that those standards are met. The principal means of putting shareholder responsibility into practice is through the exercise of voting rights. The Company's voting rights are exercised by the Manager on an informed and independent basis and are not simply passed back to the company concerned for discretionary voting by its chairman. The Manager's policy on Corporate Governance and stewardship can be found on the Manager's website at *www.invescoperpetual.co.uk*.

By order of the Board

Invesco Asset Management Limited
Secretary
30 Finsbury Square
London EC2A 1AG

28 March 2011

Directors' Remuneration Report

for the year ended 31 December 2010

The Board presents this Report which has been prepared under the requirements of Schedule 8 to the Large and Medium-sized Companies and Group Regulations 2008 and in accordance with the Directors' Remuneration Report Regulations 2002 and the Listing Rules of the Financial Services Authority. An Ordinary Resolution for the approval of this Report will be put to shareholders at the Annual General Meeting.

The Company's auditors are required to audit certain of the disclosures provided in this Report. Where disclosures have been audited, they are so indicated in this Report. The independent auditors' opinion is included in their Report on pages 47 and 48.

Remuneration Responsibilities

The Board has determined that a remuneration committee is not appropriate for a company of this size and nature. Remuneration is therefore regarded as part of the responsibilities of the Board as a whole.

All Directors are non-executive and all participate in meetings of the Board at which Directors' remuneration is considered. The Board seeks advice from a specialist agency and the Manager when considering the level of Directors' fees.

During the year under review, Directors' remuneration was at the following rates per annum:

Chairman	£27,000
Chairman of the Audit Committee	£21,000
Senior Non-Executive Director	£19,500
Other Directors	£18,000

Policy on Directors' Remuneration

The Board's policy is that Directors' remuneration should be fair and reasonable by comparison with fees paid by other investment trust companies of similar size and complexity. The remuneration of the Chairman and the Audit Committee Chairman is set to reflect the extra responsibilities and time spent on their respective roles. It is intended that this policy will continue for the year ending 31 December 2011 and subsequent years. As noted on page 37, following Mr Baillie's retirement from the Board no new Senior Non-Executive Director will be appointed.

Fees for Directors are determined by the Board within the limits stated in the Company's Articles of Association. The maximum prescribed by the Company's Articles of Association is £150,000 per annum. Directors are not eligible for bonuses, pension benefits, share options or other incentives or benefits.

Directors' Service Contracts

All Directors have letters of appointment which are available for inspection at the Registered Office of the Company. Under the Articles of Association of the Company, the terms of the Directors' appointment provide that a Director shall retire and be subject to re-election at the first Annual General Meeting after appointment and at least every three years thereafter. The terms also provide that a Director may be removed from office without notice and that no compensation will be due on leaving office.

The Company's Performance

The Directors' Remuneration Report Regulations 2002 require that a performance graph be included with the Directors' Remuneration Report which compares, for a five-year period, the total return to

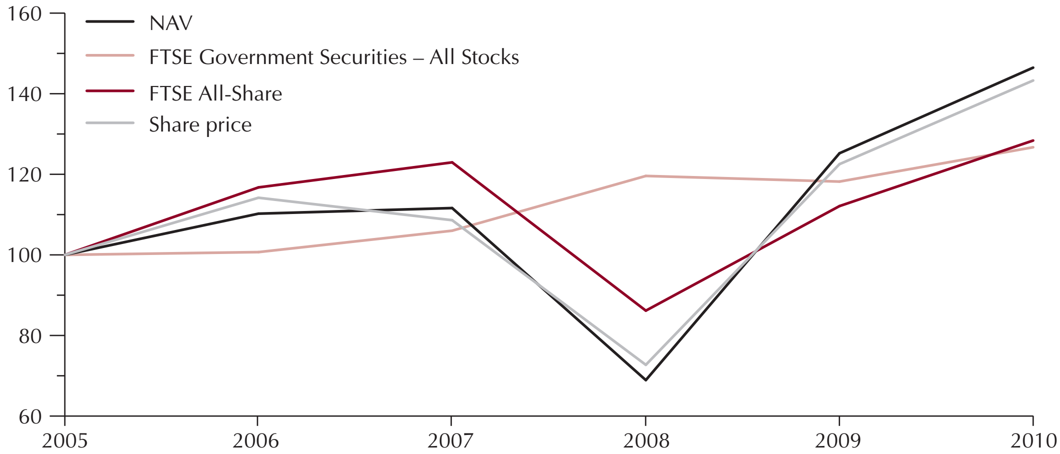
Directors' Remuneration Report

continued

each class of shareholder to a notional total return of a broad equity market index. The graph below for the period from 31 December 2005 to 31 December 2010 is shown.

As discussed under the key performance indicators in the Report of the Directors, the Company does not consider that there is a stock market index against which it can meaningfully be benchmarked. However, the FTSE Government Securities – All Stocks Index and the FTSE All-Share Index are shown in the following graph.

NAV and Share Price versus Indices (Total Return)



Directors' Emoluments (audited)

The Directors who served during the year received the following emoluments in the form of fees:

	2010	2009
	£	£
Clive Nicholson – Chairman	**27,000**	29,375
Robin Baillie – Senior Non-Executive Director, retired on 2 June 2010	**8,241**	22,500
Christopher FitzGerald – Chairman of the Audit Committee	**21,000**	22,265
Richard King	**18,000**	20,625
Kenneth MacLennan	**18,000**	20,625
Winifred Robbins – appointed on 19 March 2009	**18,000**	16,500
Jonathan Hubbard-Ford – retired on 4 June 2009	**—**	7,920
Total	**110,241**	139,810

Of the Directors' emoluments detailed above, those for Clive Nicholson and Winifred Robbins were paid to third parties in respect of making available their services as directors.

In 2009, it was agreed that Directors should be paid additional remuneration equal to one quarter of the annual remuneration to reflect their additional work in connection with the scheme of reconstruction of Invesco Perpetual European Absolute Return Trust plc and the simultaneous placing and offer for subscription (the 'Issue'). This was in accordance with the Company's Articles of Association which allow for additional remuneration to be paid to Directors for time, effort and expense incurred in carrying out duties over and above the norm. These additional amounts, which are included in the preceding table, are as set out below:

	2010	*2009*
	£	*£*
Clive Nicholson – Chairman	**—**	5,875
Robin Baillie – Senior Non-Executive Director	**—**	4,500
Christopher FitzGerald – Chairman of the Audit Committee from 5 June 2009	**—**	4,625
Richard King	**—**	4,125
Kenneth MacLennan	**—**	4,125
Winifred Robbins – appointed on 19 March 2009	**—**	4,125
Jonathan Hubbard-Ford – retired on 4 June 2009	**—**	—
Total	**—**	27,375

Approval

The Directors' Remuneration Report was approved by the Board of Directors on 28 March 2011.

Clive Nicholson
Chairman
Signed on behalf of the Board of Directors

Statement of Directors' Responsibilities

in respect of the preparation of financial statements

The Directors are responsible for preparing the annual financial report in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and on the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping adequate accounting records which are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the accounts comply with company law. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, a Directors' Remuneration Report and a Corporate Governance Statement that comply with that law and those regulations.

Each of the Directors of the Company, whose names are shown on page 15 of this Report, confirms that to the best of his/her knowledge:

- the accounts, which have been prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- this annual financial report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal tasks and uncertainties that it faces.

Clive Nicholson
Chairman
Signed on behalf of the Board of Directors

28 March 2011

Electronic Publication

The Annual Financial Report is published on *www.invescoperpetual.co.uk/investmenttrusts*, a website maintained by the Company's Manager. The work carried out by the Auditors does not involve consideration of the maintenance and integrity of this website and, accordingly, the Auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in their jurisdictions.

Independent Auditors' Report to the Members of City Merchants High Yield Trust plc

We have audited the financial statements of City Merchants High Yield Trust plc for the year ended 31 December 2010 which comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 18. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 46, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and form an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on Financial Statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2010 and of its net return for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on Other Matters Prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are Required to Report by Exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or

Independent Auditors’ Report
continued

- the financial statements and the part of the Directors’ Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors’ remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors’ Statement, set out on page 35, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company’s compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to the shareholders by the Board on Director’s remuneration.

We have nothing to report in respect of any of the above.

Julian Young (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

28 March 2011

Income Statement

for the year ended 31 December

	Notes	**2010** Revenue £'000	Capital £'000	Total £'000	2009 Revenue £'000	Capital £'000	Total £'000
Gains on investments	9	**—**	**9,790**	**9,790**	—	32,293	32,293
Foreign exchange profits		**—**	**986**	**986**	—	2,260	2,260
Revenue	2	**9,371**	**—**	**9,371**	7,566	—	7,566
Investment management fee	3	**(562)**	**(304)**	**(866)**	(371)	(200)	(571)
VAT recoverable on management fees	3	**—**	**—**	**—**	16	9	25
Liquidation distribution	3	**—**	**—**	**—**	—	469	469
Other expenses	4	**(448)**	**(2)**	**(450)**	(441)	(285)	(726)
Net return before finance costs and taxation		**8,361**	**10,470**	**18,831**	6,770	34,546	41,316
Finance costs	5	**(109)**	**(70)**	**(179)**	(225)	(121)	(346)
Return on ordinary activities before taxation		**8,252**	**10,400**	**18,652**	6,545	34,425	40,970
Tax on ordinary activities	6	**(2,215)**	**1,122**	**(1,093)**	2,421	—	2,421
Return on ordinary activities after tax for the financial year		**6,037**	**11,522**	**17,559**	8,966	34,425	43,391
Return per ordinary share – basic	7	**8.3p**	**15.8p**	**24.1p**	14.5p	55.5p	70.0p

The total column represents the Company's profit and loss account. The supplementary revenue and capital columns are presented for information purposes as recommended by the guidance note 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; therefore, no statement of recognised gains or losses is presented. No operations were acquired or discontinued in the year.

Reconciliation of Movements in Shareholders' Funds

for the year ended 31 December

	Share Capital £'000	Share Premium £'000	Special Reserve £'000	Capital Redemption Reserve £'000	Capital Reserve £'000	Revenue Reserve £'000	Total £'000
Balance at 31 December 2008	1,175	119,663	11,644	8,410	(89,173)	5,540	57,259
Return for the year from the income statement	—	—	—	—	34,425	8,966	43,391
Dividends paid in the year – note 8	—	—	—	—	—	(7,209)	(7,209)
Issue of new shares	281	20,348	—	—	—	—	20,629
Balance at 31 December 2009	1,456	140,011	11,644	8,410	(54,748)	7,297	114,070
Return for the year from the income statement	—	—	—	—	11,522	6,037	17,559
Dividends paid in the year – note 8	—	—	—	—	—	(8,617)	(8,617)
Balance at 31 December 2010	**1,456**	**140,011**	**11,644**	**8,410**	**(43,226)**	**4,717**	**123,012**

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

Balance Sheet

as at 31 December

	Notes	**2010** **£'000**	2009 £'000
Fixed assets			
Investments at fair value through profit or loss	9	**111,445**	114,652
Current assets			
Debtors	10	**6,416**	7,988
Cash at bank		**5,894**	2,859
		12,310	10,847
Creditors: amounts falling due within one year	11	**(743)**	(11,429)
Net current assets/(liabilities)		**11,567**	(582)
Total assets less current liabilities		**123,012**	114,070
Capital and reserves			
Share capital	12	**1,456**	1,456
Share premium	13	**140,011**	140,011
Special reserve	13	**11,644**	11,644
Capital redemption reserve	13	**8,410**	8,410
Capital reserve	13	**(43,226)**	(54,748)
Revenue reserve	13	**4,717**	7,297
Shareholders' funds		**123,012**	114,070
Net asset value per ordinary share	14	**168.98p**	156.69p

These financial statements were approved by the Board of Directors and authorised for issue on 28 March 2011.

Clive Nicholson
Chairman
Signed on behalf of the Board of Directors

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

Cash Flow Statement

for the year ended 31 December

	Notes	**2010** **£'000**	2009 £'000
Net cash inflow from operating activities	15(a)	**8,202**	5,360
Servicing of finance	15(b)	**(201)**	(437)
Net inflow/(outflow) from financial investment	15(b)	**12,997**	(12,673)
Equity dividends paid	8	**(8,617)**	(7,209)
Cash inflow/(outflow) before financing		**12,381**	(14,959)
Management of liquid resources	15(b)	**(3,334)**	—
Financing	15(b)	**(11,108)**	10,040
Increase/(decrease) in cash		**(2,061)**	(4,919)

Reconciliation of net cash flow to movement in net funds/(debt)

	Notes	**£'000**	£'000
Decrease in cash		**(2,061)**	**(4,919)**
Cash flow from movement in liquid resources		**3,334**	**—**
Cash outflow from decrease in debt		**11,108**	**3,925**
Change in funds/(debt) resulting from cash flows		**12,381**	**(994)**
Translation difference – exchange profits		**1,762**	**1,886**
Movement in net funds/(debt) in the year		**14,143**	**892**
Net debt at beginning of the year		**(8,249)**	**(9,141)**
Net funds/(debt) at end of the year	15(c)	**5,894**	**(8,249)**

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

Notes to the Financial Statements

for the year ended 31 December

1. Principal Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied during the year and the preceding year, unless otherwise stated.

(a) Basis of Preparation

Accounting Standards applied

The financial statements have been prepared in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and with the Statement of Recommended Practice ('SORP') 'Financial Statements of Investment Trust Companies and Venture Capital Trusts', issued by the Association of Investment Companies in 2009. The financial statements are prepared on a going concern basis. The disclosures on going concern in the Report of the Directors on page 35 form part of the financial statements.

(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, as well as certain of its assets and liabilities, are denominated.

(ii) *Transactions and balances*

Transactions in foreign currency, whether of a revenue or capital nature, are translated to sterling at the rates of exchange ruling on the dates 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 account, depending on whether the gain or loss is of a capital or revenue nature. All gains and losses are recognised in the income statement.

(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 only 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 income statement, 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 actively traded but 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. Unquoted investments are valued by the Directors at fair value based on recommendations from the Manager's Pricing Committee, which in turn is guided by the International Private Equity and Venture Capital Association Guidelines.

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. Derivative instruments may be capital or revenue in nature and, accordingly, changes in their fair value are recognised in revenue or capital in the income statement as appropriate.

(e) Income

Interest income arising from fixed income securities and cash is recognised in the income statement 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 receivable are taken into account on an accruals basis.

(f) Expenses and Finance Costs

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

(g) Taxation

The liability to corporation tax is based on net taxable revenue for the year. The tax charge is allocated between the revenue and capital account on the marginal basis whereby revenue expenses are matched first against taxable income in the revenue account.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax or a right to pay less tax in the future have occurred. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements. Deferred taxation assets are recognised where, in the opinion of the Directors, it is more likely than not that these amounts will be realised in future periods.

Deferred taxation is measured at the tax rates that are expected to apply in the years in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially indicated by the balance sheet date.

(h) Dividends

Dividends are not accrued in the financial statements unless there is an obligation to pay the dividends at the balance sheet date. Proposed dividends are recognised in the year in which they are approved by shareholders.

Notes to the Financial Statements

continued

2. Income

	2010 ***£'000***	*2009* *£'000*
Income from listed investments		
UK dividends	**525**	851
UK unfranked investment income – interest	**2,754**	1,644
Overseas interest	**5,912**	4,920
Overseas dividends	**83**	35
Scrip dividends	**76**	83
	9,350	7,533
Other income		
Interest on VAT recovered on management fees (note 3)	**—**	14
Deposit interest	**21**	19
	21	33
Total income	**9,371**	7,566
Total income comprises:		
Dividends	**684**	969
Interest	**8,687**	6,597
	9,371	7,566

3. Investment Management Fee

		2010			*2009*	
	Revenue £'000	***Capital £'000***	***Total £'000***	*Revenue £'000*	*Capital £'000*	*Total £'000*
Investment management fee	**562**	**304**	**866**	371	200	571

Details of the Management Agreement are disclosed in the Report of the Directors. At 31 December 2010 £220,000 (2009: £199,000) was due for payment in respect of investment management fees.

In the year ended 31 December 2009, the Company recovered the following VAT paid on management fees:

– £25,000 for the period 2004 to 2007, together with £14,000 of interest; and

– £469,000 for VAT paid on management fees suffered by the old CMHYT to the merger in 2005; this was paid as a liquidation distribution by that company.

No amounts were received in the year ended 31 December 2010.

4. Other Expenses

	2010 Revenue £'000	2010 Capital £'000	2010 Total £'000	2009 Revenue £'000	2009 Capital £'000	2009 Total £'000
Administrative and secretarial services (i)	**67**	**—**	**67**	64	—	64
Directors' fees (ii) (iv)	**110**	**—**	**110**	113	27	140
Fees payable to the Company's Auditors (iii)						
– for the audit of the financial statements	**26**	**—**	**26**	25	—	25
– for other services: tax compliance	**6**	**—**	**6**	6	—	6
– review of prospectus (iv)	**—**	**—**	**—**	—	19	19
Other expenses (iv)	**239**	**2**	**241**	233	239	472
	448	**2**	**450**	441	285	726

(i) The Manager acts as secretary to the Company and provides all general secretarial and administrative services under an Administration Agreement dated 21 November 2005 terminable at any time by either party giving no less than three months' notice. The fee is payable quarterly in arrears based on the initial rate of £50,000 (plus VAT) per annum. The fee is revised with effect from 1 July each year by the application of a formula based on the Retail Price Index for the month of May in the relevant and preceding year. At 31 December 2010 £17,000 (2009: £16,000) was due for payment in respect of secretarial services to the Manager.

(ii) The Directors' fees authorised by the Articles of Association are £150,000 per annum. The Directors' Remuneration Report provides further information on Directors' fees.

(iii) Fees payable to the Auditor are shown excluding VAT, which is included in other expenses.

(iv) During 2009, the Company issued shares in connection with the scheme of reconstruction of the Invesco Perpetual European Absolute Return Trust plc and the simultaneous placing and offer for subscription. The costs arising were all charged to capital and were shown under Directors' fees, fees payable to the Company's auditors and other expenses. Other expenses also includes custodian transaction charges of £2,000 (2009: £4,000).

5. Finance Costs

	2010 Revenue £'000	2010 Capital £'000	2010 Total £'000	2009 Revenue £'000	2009 Capital £'000	2009 Total £'000
Interest payable on bank borrowings	**109**	**70**	**179**	225	121	346

Notes to the Financial Statements

continued

6. Taxation

(a) Analysis of the charge for the year

	2010 Revenue £'000	**2010 Capital £'000**	**2010 Total £'000**	*2009 Revenue £'000*	*2009 Capital £'000*	*2009 Total £'000*
United Kingdom taxation:						
Corporation tax at 28% (2009: 28%)	**2,123**	**—**	**2,123**	1,505	—	1,505
Surplus management expenses of previous years now utilised	**(2,123)**	**—**	**(2,123)**	(1,505)	—	(1,505)
Prior year adjustment	**—**	**—**	**—**	(24)	—	(24)
Overseas taxation	**14**	**—**	**14**	3	—	3
Current tax charge/(credit)	**14**	**—**	**14**	(21)	—	(21)
Deferred tax:						
Surplus management expenses of previous years and current year now utilised/(recognised)	**2,201**	**(1,122)**	**1,079**	(2,400)	—	(2,400)
Taxation charge/(credit)	**2,215**	**(1,122)**	**1,093**	(2,421)	—	(2,421)

(b) Factors affecting tax charge for the year

	2010 £'000	*2009 £'000*
Total return on ordinary activities before taxation	**18,652**	40,970
Theoretical tax at UK Corporation Tax rate of 28% (2009: 28%)	**5,223**	11,472
Effects of:		
– non-taxable gains on investments	**(2,741)**	(9,042)
– non-taxable foreign exchange profits	**(276)**	(633)
– non-taxable UK dividends	**(168)**	(238)
– non-taxable overseas dividends	**(24)**	—
– overseas taxation	**14**	—
– liquidation distribution credited to capital	**—**	(131)
– prior year adjustment	**—**	(24)
– capital expenses disallowed or unutilised in the year	**109**	80
– surplus management expenses of previous years now utilised	**(2,123)**	(1,505)
	14	(21)
Deferred tax charge/(credit)	**1,079**	(2,400)
Tax charge/(credit)	**1,093**	(2,421)

The Company is not liable to tax on capital gains due to its status as an investment trust company.

(c) Deferred taxation

Provision for deferred taxation is made at a rate of 27.25% (2009: 28%) on all surplus management expenses to the extent that it is more likely than not that tax relief will be obtained. The deferred tax asset has been calculated on an expected rate at which this amount would reverse, based on projections of taxable income for the Company's portfolio of investments, and based on the indicated rates of corporation at the balance sheet date.

It was announced in the UK Budget on 23 March 2011 that the main rate of corporation tax would fall to 26% from 1 April 2011. This would result in a decrease in the deferred tax asset recognised by the company at the year end of £107k, on the basis that the deferred tax asset would be expected to reserve at a rate of 26.5% rather than 27.25%. Details of the deferred tax asset and the movements over the year follow:

The deferred tax asset recognised and not recognised comprises:

	2010		*2009*	
	Recognised £'000	***Not Recognised £'000***	*Recognised £'000*	*Not Recognised £'000*
Surplus management expenses	**3,921**	**—**	5,000	1,178

At the balance sheet date surplus management expenses were £14,394,000 (2009: £22,063,000).

The movement in the deferred tax asset is as follows:

	2010		*2009*	
	£'000	***£'000***	*£'000*	*£'000*
Balance brought forward		**5,000**		2,600
Surplus management expenses of previous years now utilised	**(2,123)**		(1,505)	
Revaluation of deferred tax asset in year	**1,044**		3,905	
		(1,079)		2,400
Balance carried forward		**3,921**		5,000

Further information about the deferred tax asset is disclosed in the Report of the Directors.

7. Return per Ordinary Share

Total return per ordinary share is based on the total return on ordinary activities after tax. Revenue return per ordinary share is based on the revenue return on ordinary activities after tax. Capital return per ordinary share is based on the capital return on ordinary activities after tax.

All three returns are based on 72,799,105 (2009: 62,018,845) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

Notes to the Financial Statements

continued

8. Dividends on Ordinary Shares

Dividends paid and recognised in the year:

	2010		*2009*	
	Pence	***£'000***	*Pence*	*£'000*
Interim paid in respect of previous period	**4**	**2,793**	3	1,779
First interim paid	**2**	**1,456**	3	1,779
Second interim paid	**3**	**2,184**	3	1,823
Third interim paid	**3**	**2,184**	3	1,828
	12	**8,617**	12	7,209

Set out below are the dividends that have been declared in respect of the financial year ended 31 December:

	2010		*2009*	
	Pence	***£'000***	*Pence*	*£'000*
First interim paid	**2**	**1,456**	3	1,779
Second interim paid	**3**	**2,184**	3	1,823
Third interim paid	**3**	**2,184**	3	1,828
Fourth interim, payable on 28 February 2011	**3**	**2,184**	—	—
Fourth interim, paid on 26 February 2010	—	—	1	609
Fifth interim, paid on 26 February 2010	—	—	2	1,456
Sixth interim, paid on 28 May 2010	—	—	1	728
	11	**8,008**	13	8,223

Dividends declared but not paid at the balance sheet date are not included as a liability in that year's financial statements.

9. Investments at Fair Value Through Profit or Loss

(a) Analysis of investments

	2010	*2009*
	£'000	*£'000*
UK	**50,773**	35,456
Overseas	**60,672**	79,196
	111,445	114,652

(b) Analysis of investment gains

	2010	*2009*
	£'000	*£'000*
Opening valuation	**114,652**	63,192
Movements in the year:		
Purchases at cost	**61,078**	81,240
Investments received from Invesco Perpetual European Absolute Return Trust plc	—	6,494
Sales – proceeds	**(74,075)**	(68,567)
– gains/(losses) on sales	**8,602**	(3,362)
Movement in investment holding gains	**1,188**	35,655
Closing valuation	**111,445**	114,652
Closing book cost	**109,051**	113,446
Closing investment holding gains	**2,394**	1,206
	111,445	114,652

(c) Gains/(losses) on investments

	2010 **£'000**	*2009* *£'000*
Gains/(losses) on sales	**8,602**	(3,362)
Movement in investment holding gains	**1,188**	35,655
Gains on investments	**9,790**	32,293

(d) Transaction costs

Transaction costs on purchases of £1,000 (2009: £5,000) and on sales of £7,000 (2009: £1,000) are included within gains and losses on investments.

(e) Significant holdings

As at 31 December 2010 the Company had holdings of 3% or more of the class of issued share capital in the following investments that are considered material in the context of the accounts.

Name of undertaking	*Class of capital*	*% of class held*
Ashpol	10% Cum Prf 100p	10.0
Premier Farnell	Prd 89.2p Cum Cnv Red	3.9
MWB Group	9.75% Jun 30 12	3.3
Brazilian Resources (Canada)	Common	2.5

All the above companies are incorporated in England and Wales unless otherwise stated.

(f) Registration of investments

The investments of the Company are registered in the name of the Company or in the name of nominees and held to the account of the Company.

10. Debtors

	2010 **£'000**	*2009* *£'000*
Prepayments and accrued income	**2,495**	2,614
Deferred tax asset – amounts recoverable within one year	**1,819**	2,102
– amounts recoverable after more than one year	**2,102**	2,898
Unrealised profit on forward currency contracts	**—**	374
	6,416	7,988

11. Creditors: Amounts Falling Due Within One Year

	2010 **£'000**	*2009* *£'000*
Bank loan	**—**	11,108
Accruals and deferred income	**341**	321
Unrealised loss on forward currency contracts	**402**	—
	743	11,429

On 11 November 2010 the Company renewed a revolving credit facility with Bank of New York Mellon. This facility allows the Company to draw down amounts in sterling, euros or US dollars to a maximum sterling equivalent of £20 million. Interest payable is based on the interbank offered rate for the currency drawndown. This facility is available until 10 November 2011.

At 31 December 2010 the Company had no drawdowns. At 31 December 2009 the Company had outstanding two separate amounts that had been drawn down of: £4 million and €8 million.

Notes to the Financial Statements

continued

12. Share Capital

	2010 £'000	*2009 £'000*
Authorised		
5,174,116,742 ordinary shares of 2p (2009: 5,174,116,742)	**103,482**	103,482

	2010 £'000	*2009 £'000*
Allotted and fully paid		
72,799,105 ordinary shares of 2p (2009: 72,799,105)	**1,456**	1,456

During the year the Company issued no ordinary shares (2009: 14,039,819 ordinary shares).

13. Reserves

The special reserve arose on the part issuance of shares, and the capital redemption reserve maintains the equity share capital arising from the buy back and cancellation of shares. Both reserves, together with the capital reserve, are non-distributable.

The revenue reserve is the only reserve that is distributable by way of dividend.

14. Net Asset Value per Ordinary Share

The net asset value per ordinary share at 31 December 2010 is based on net assets of £123,017,000 (2009: £114,070,000) and on 72,799,105 (2009: 72,799,105) shares being the number of ordinary shares in issue at the year-end.

15. Notes to the Cash Flow Statement

(a) Reconciliation of net return before finance costs and taxation to net cash inflow from operating activities

	2010 £'000	*2009 £'000*
Total return before finance costs and taxation	**18,831**	41,316
Gains on investments in the year	**(9,790)**	(32,293)
Exchange profits	**(986)**	(2,260)
Liquidation distribution	**—**	(469)
VAT recoverable on management fees	**—**	(25)
Tax on overseas dividends	**(14)**	(3)
Prior year tax adjustment	**—**	24
Decrease/(increase) in debtors	**119**	(1,025)
Increase in creditors	**42**	95
Net cash inflow from operating activities	**8,202**	5,360

(b) Analysis of cash flow for headings netted in the cash flow statement

Servicing of finance

	2010 £'000	*2009 £'000*
Interest paid	**(201)**	(437)

Financial investment

	2010 £'000	*2009 £'000*
Purchase of investments	**(61,078)**	(81,240)
Sale of investments	**74,075**	68,567
Net inflow/(outflow) from financial investment	**12,997**	(12,673)

Management of liquid resources

	2010 £'000	2009 £'000
Cash movement on short-term deposits	**(3,334)**	—
Net cash movement from management of liquid resources	**(3,334)**	—

Financing

	2010 £'000	2009 £'000
Decrease in short-term borrowings	**(11,108)**	(3,925)
Cash received from Invesco Perpetual European Absolute Return Trust plc	**—**	965
Placing and offer for subscription for cash	**—**	10,480
Net proceeds from other issue of ordinary shares	**—**	2,520
Net cash (outflow)/inflow from financing	**(11,108)**	10,040

(c) Analysis of changes in net (debt)/funds

	31 December 2009 £'000	Cash flow £'000	Exchange movement £'000	31 December 2010 £'000
Cash	2,859	(2,061)	1,762	**2,560**
Short-term deposit	—	3,334	—	**3,334**
Bank loans	(11,108)	11,305	(197)	**—**
Net (debt)/funds	(8,249)	12,578	1,565	**5,894**

16. Contingencies, Guarantees and Financial Commitments

The Board expects the Company to receive additional refunds of VAT from the previous manager, together with interest. However, as the amounts involved and the timing of receipts is uncertain, no provision has been made in these accounts.

There were no other contingencies, guarantees or financial commitments of the Company at the year-end (2009: £nil).

17. Related-party Transactions

Invesco Asset Management Limited, a wholly-owned subsidiary of Invesco Ltd, acts as Manager and Company Secretary to the Company. Details of Invesco Asset Management Limited's services and fees are given in note 3 to the financial statements. Full details of Directors' interests are set out in the Report of the Directors.

18. Financial Instruments

The Company's financial instruments comprise its investment portfolio (as shown on pages 11 to 14), cash, borrowings, debtors and creditors that arise directly from its operations such as sales and purchases awaiting settlement and accrued income. The accounting policies in note 1 include criteria for the recognition and the basis of measurement applied for financial instruments. Note 1 also includes the basis on which income and expenses arising from financial assets and liabilities are recognised and measured.

Notes to the Financial Statements

continued

18. Financial Instruments *continued*

The principal risks that the Company faces in its portfolio management activities are set out below:

Market risk – arising from fluctuations in the fair value or future cash flows of a financial instrument because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk:

Currency risk – arising from fluctuations in the fair value or future cash flows of a financial instrument because of changes in foreign exchange rates;

Interest rate risk – arising from fluctuations in the fair value or future cash flows of a financial instrument because of changes in market interest rates; and

Other price risk – arising from fluctuations in the fair value or future cash flows of a financial instrument for reasons other than changes in foreign exchange rates or market interest rates.

Liquidity risk – arising from any difficulty in meeting obligations associated with financial liabilities.

Credit risk – arising from financial loss for a company where the other party to a financial instrument fails to discharge an obligation.

Risk Management Policies and Procedures

The Directors have delegated to the Manager the responsibility for the day to day investment activities and management of borrowings of the Company as more fully described in the Report of the Directors.

As an investment company, investments include, but are not restricted to preference shares, loan stocks, corporate bonds and government stocks and equities for the long-term so as to meet its investment policy (incorporating the Company's investment objective). In pursuing its investment objective, the Company is exposed to a variety of risks that could result in either a reduction in the Company's net assets or a reduction of the profits available for dividends. The risks applicable to the Company and the policies the Company used to manage these risks for two years under review follow.

Market Risk

As described on pages 26 to 27 in the Report of the Directors, high yield fixed interest securities are subject to a variety of risks. Many of the Company's investments are in non-investment grade securities and adverse changes in the financial position of an issuer or in the general economy may effect both the principal and the interest. Gearing using the Company's borrowing facility can be used to enhance returns, however, this will also increase the Company's exposure to market risk and volatility.

The portfolio managers assess the Company's exposure when making each investment decision and monitor the overall level of market risk on the whole of the investment portfolio on an ongoing basis. Risk management is an integral part of the investment managment process. The portfolio managers control risk by ensuring that the Company's investment portfolio is appropriately diversified. In-depth and continous analysis of market and stock fundamentals gives the portfolio managers the best possible understanding of the risks associated with a particular stock.

(a) ***Currency Risk***

As the majority of the Company's assets, liabilities and income are denominated in currencies other than sterling, movements in exchange rates will affect the sterling value of those items.

Management of the Currency Risk

The Board meets at least quarterly to assess risk and review investment performance. The portfolio managers monitors the Company's exposure to foreign currencies on a daily basis and reports to the Board. Drawings in euros or US dollars on the borrowing facility can be used to limit the Company's exposure to anticipated future changes in these exchange rates and can also be used to achieve the portfolio characteristics that assist the Company in meeting its investment objective. The Company can also use forward currency contracts to limit the Company's exposure to anticipated future changes in exchange rates. All facility drawings and contracts are limited to currencies and amounts commensurate with asset exposure to those currencies.

Income denominated in foreign currencies is converted to sterling on receipt. The Company does not use financial instruments to mitigate the currency exposure in the period between the time that income is included in the financial statements and its receipt.

Currency Exposure

The fair values of the Company's monetary items that have foreign currency exposure at 31 December follow. Where the Company's equity investments (which are not monetary items) are priced in a foreign currency, they have been included separately in the analysis to show the overall level of exposure.

31 December 2010	***Euro £'000***	***US Dollar £'000***	***Australian Dollar £'000***	***Canadian Dollar £'000***	***Swiss Franc £'000***	***Norwegian Krone £'000***
Investments at fair value through profit or loss that are monetary items (fixed-interest)	**34,406**	**24,437**	**—**	**—**	**—**	**—**
Cash at bank	**1,103**	**1,958**	**1**	**—**	**589**	**—**
Debtors (due from brokers, dividends receivable and accrued income)	**1,022**	**431**	**—**	**—**	**—**	**—**
Creditors (due to brokers and accruals)	**—**	**—**	**—**	**—**	**—**	**—**
Borrowings under the loan facility	**—**	**—**	**—**	**—**	**—**	**—**
Forward currency sales	**(38,648)**	**(6,412)**	**—**	**—**	**—**	**—**
Foreign currency exposure on net monetary items	**(2,117)**	**20,414**	**1**	**—**	**589**	**—**
Investments at fair value through profit or loss that are equities	**73**	**1,060**	**5**	**410**	**1,258**	**—**
Total net foreign currency exposure	**(2,044)**	**21,474**	**6**	**410**	**1,847**	**—**

31 December 2009	*Euro £'000*	*US Dollar £'000*	*Australian Dollar £'000*	*Canadian Dollar £'000*	*Swiss Franc £'000*	*Norwegian Krone £'000*
Investments at fair value through profit or loss that are monetary items (fixed-interest)	51,771	24,431	—	—	—	—
Cash at bank	1,705	—	—	—	—	—
Debtors (amounts due from brokers, dividends receivable and accrued income)	1,201	471	—	—	—	—
Creditors (amounts due to brokers and accruals)	(15)	—	—	—	—	—
Borrowings under the loan facility	(7,108)	—	—	—	—	—
Forward currency sales	(37,248)	(14,913)	—	—	—	—
Foreign currency exposure on net monetary items	10,306	9,989	—	—	—	—
Investments at fair value through profit or loss that are equities	1,964	270	821	—	—	—
Total net foreign currency exposure	12,270	10,259	821	—	—	—

The above may not be representative of the exposure to risk during the two years reported because the levels of monetary foreign currency exposure may change significantly throughout each year.

Notes to the Financial Statements

continued

18. Financial Instruments *continued*

(a) ***Currency Risk*** *continued*

Currency Sensitivity

The following table illustrates the sensitivity of the profit after taxation for the year with respect to the Company's monetary financial assets and liabilities and each of the exchange rates for sterling to euro, US dollar, Australian dollar, Canadian dollar, Swiss franc and Norwegian krone.

	2010	*2009*
£/euro	**±2.9%**	±2.7%
£/US dollar	**±3.1%**	±6.0%
£/Australian dollar	**±4.0%**	±7.0%
£/Canadian dollar	**±3.2%**	±2.8%
£/Swiss franc	**±3.5%**	±3.1%
£/Norwegian krone	**±2.5%**	n/a

These percentages have been determined using the market volatility of exchange rates in the year. The sensitivity analysis is based on the Company's monetary foreign currency financial instruments held at each balance sheet date and takes account of any forward foreign exchange contracts or borrowings that offset the effects of changes in currency exchange rates. The effect of the strengthening or weakening of sterling against currencies to which the Company is exposed is calculated by reference to the volatility of exchange rates during the year using the standard deviation of currency fluctuations against the mean.

If sterling had strengthened by the changes in exchange rates shown above, this would have had the following effect:

2010	***Euro £'000***	***US Dollar £'000***	***Australian Dollar £'000***	***Canadian Dollar £'000***	***Swiss Franc £'000***	***Norwegian Krone £'000***
Income statement – profit/(loss) after taxation						
Revenue return	**(111)**	**(64)**	**(8)**	**—**	**—**	**(2)**
Capital return	**89**	**(670)**	**—**	**(13)**	**(66)**	**—**
Total (loss)/profit after taxation for the year	**(22)**	**(734)**	**(8)**	**(13)**	**(66)**	**(2)**

2009	*Euro £'000*	*US Dollar £'000*	*Australian Dollar £'000*	*Canadian Dollar £'000*	*Swiss Franc £'000*	*Norwegian Krone £'000*
Income statement – profit after taxation						
Revenue return	(120)	(45)	(13)	—	—	—
Capital return	(306)	(624)	(62)	—	—	—
Total loss after taxation for the year	(426)	(669)	(75)	—	—	—

If sterling had weakened by the changes in exchange rates shown above, this would have had the following effect:

2010	***Euro £'000***	***US Dollar £'000***	***Australian Dollar £'000***	***Canadian Dollar £'000***	***Swiss Franc £'000***	***Norwegian Krone £'000***
Income statement – profit after taxation						
Revenue return	**111**	**64**	**8**	**—**	**—**	**2**
Capital return	**(89)**	**670**	**—**	**13**	**66**	**—**
Total profit/(loss) after taxation for the year	**22**	**734**	**8**	**13**	**66**	**2**

2009	*Euro £'000*	*US Dollar £'000*	*Australian Dollar £'000*	*Canadian Dollar £'000*	*Swiss Franc £'000*	*Norwegian Krone £'000*
Income statement – profit/(loss) after taxation						
Revenue return	120	45	13	—	—	—
Capital return	306	624	62	—	—	—
Total profit after taxation for the year	426	669	75	—	—	—

In the opinion of the Directors, the above sensitivity analysis is not representative of the year as a whole, since the level of exposure changes frequently as part of the currency risk management process of the Company.

(b) ***Interest Rate Risk***

Interest rate movements may affect:

– the fair value of the investments in fixed-interest rate securities;
– the level of income receivable on cash deposits; and
– the interest payable on variable rate borrowings.

Management of interest rate risk

The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account as part of the portfolio management and borrowings processes of the portfolio managers. The Board reviews on a regular basis the investment portfolio and borrowings. This encompasses the valuation of fixed-interest and floating rate securities and gearing levels.

When the Company has cash balances, they are held on variable rate bank accounts yielding rates of interest dependant on the base rate of the custodian. During the year the Company renewed the 364 day revolving credit facility with the Bank of New York Mellon. This facility allows the Company to draw down amounts in sterling, euros or US dollars to maximum sterling equivalent of £20 million. This facility expires on 10 November 2011. Drawings under this facility are subject to the restriction that the Company's total financial indebtedness must not exceed 30% of total assets and that the assets must be in excess of £50 million.

At the year-end there were no drawings. At the previous year-end drawings comprised €8 million at 1.714% pa and £4 million at 1.614% pa repayable on 17 February 2010.

The Company uses the facility when required at levels approved and monitored by the Board.

Notes to the Financial Statements
continued

18. Financial Instruments *continued*

(b) ***Interest Rate Risk*** *continued*

Interest rate exposure

At 31 December the exposure of financial assets and financial liabilities to interest rate risk is shown by reference to:

- floating interest rates (giving cash flow interest rate risk) – when the interest rate is due to be re-set;
- fixed interest rates (giving fair value interest rate risk) – when the financial instrument is due for repayment.

	2010			*2009*		
	Within one year £'000	***More than one year £'000***	***Total £'000***	*Within one year £'000*	*More than one year £'000*	*Total £'000*
Exposure to floating interest rates:						
Investments at fair value through profit or loss	**—**	**24,631**	**24,631**	426	25,432	25,858
Cash at bank	**5,894**	**—**	**5,894**	2,859	—	2,859
Bank loan	**—**	**—**	**—**	(11,108)	—	(11,108)
	5,894	**24,631**	**30,525**	(7,823)	25,432	17,609
Exposure to fixed-interest rates:						
Investments at fair value through profit or loss	**10,520**	**73,235**	**83,755**	1,243	84,339	85,582
Net exposure to interest rates	**16,414**	**97,866**	**114,280**	(6,580)	109,771	103,191

The nominal interest rates on the investments at fair value through profit or loss are shown in the portfolio statement on pages 11 to 14. The weighted average effective interest rate on these investments is 7.1% (2009: 7.9%).

Interest rate sensitivity

The following table illustrates the sensitivity of the profit after taxation for the year to a 1% increase or decrease in interest rates in regard to the Company's monetary financial assets and financial liabilities. As interest rates have varied considerably over recent times, future changes cannot be estimated with any degree of certainty. The sensitivity analysis is based on the Company's monetary financial instruments held at the balance sheet date, with all other variables held constant.

	2010		*2009*	
	Increase in rate £'000	***Decrease in rate £'000***	*Increase in rate £'000*	*Decrease in rate £'000*
Income statement – profit/(loss) after taxation				
Revenue return	**59**	**(59)**	(82)	82
Capital return	**(5,473)**	**5,473**	(4,146)	4,146
Total (loss)/profit after taxation for the year	**(5,414)**	**5,414**	(4,228)	4,228
Effect on net asset value (weighted)	**(7.4)p**	**7.4p**	(6.8)p	6.8p

The above exposure and sensitivity analysis are not representative of the year as a whole, since the level of exposure changes frequently as borrowings are drawn down and repaid throughout the year.

(c) ***Other Price Risk***

Other price risks (i.e. changes in market prices other than those arising from interest rate risk or currency risk) may affect the value of the investment portfolio. It is the business of the portfolio managers to manage the portfolio and borrowings to achieve the best returns.

Management of Other Price Risk

The Directors manage the market price risks inherent in the investment portfolio by meeting regularly to monitor on a formal basis compliance with the Company's stated investment policy and objective and to review investment performance.

The Company's portfolio is the result of the portfolio managers' investment process and as a result is not correlated with the markets in which the Company invests. The value of the portfolio will not move in line with the markets but will move as a result of the performance of the company shares in the portfolio. The Company can hedge all or part of its investment portfolio denominated in foreign currency by using borrowings under its revolving credit facility in the same currency. It can also hold derivative positions in options and futures to hedge movements in the stocks in which the Company's investment portfolio has an exposure.

The Company's exposure to other changes in market prices at 31 December on its quoted equity investments and fixed interest investments was as follows:

		2010	*2009*
		£'000	*£'000*
Fixed asset investments at fair value through profit or loss	– Bonds	**108,385**	111,462
	– Equity	**3,060**	3,190
Cash and cash equivalents		**5,894**	2,859
Current assets		**6,416**	2,988
		123,755	120,499

Concentration of exposure to other price risks

The Company's investment portfolio on pages 11 to 14 is not concentrated to any single country of domicile, however, it is recognised that an investment's country of domicile or listing does not necessarily equate to its exposure to the economic conditions in that country.

Other price risk sensitivity

At the year-end, the Company held equity investments of £3,060,000 (2009: £3,190,000). The effect of a 10% increase or decrease in the fair values (including equity exposure through derivatives) on the profit after taxation for the year is £306,000 (2009: £319,000). This level of change is considered to be reasonably possible based on the observation of current market conditions. The sensitivity analysis is based on the Company's equities and equity exposure through derivatives at the balance sheet date with all other variables held constant.

Notes to the Financial Statements

continued

18. Financial Instruments *continued*

Liquidity Risk

This is the risk the Company encounters when realising assets or raising finance to meet financial commitments. A lack of liquidity in the portfolio may make it difficult for the Company to realise assets at or near their purported value in the event of a forced sale.

Management of liquidity risk

The portfolio managers, as part of their ongoing responsibilities, ascertain the Company's cash requirements by reviewing future cash flows from purchases and sales of investments, interest and dividend receipts, expenses and dividend payment, and available financing. The portfolio managers review the drawn downs on the borrowing facility on a daily basis. If the facility were fully utilised the portfolio managers could potentially realise the more liquid assets in the portfolio, taking into account the effect of this on performance as well as the objectives of the Company.

Liquidity risk exposure

	2010			*2009*		
	Three months or less £'000	***Less than one year £'000***	***Total £'000***	*Three months or less £'000*	*Less than one year £'000*	*Total £'000*
Borrowings	**—**	**—**	**—**	11,108	—	11,108
Forward currency contracts	**402**	**—**	**402**	(374)	—	(374)
Other	**—**	**336**	**336**	—	321	321
	402	**336**	**738**	10,734	321	11,055

Credit Risk

Credit risk encompasses the failure by counterparties to deliver securities which the Company has paid for, or to pay for securities which the Company has delivered. This risk is mitigated by using only approved counterparties. The portfolio may be adversly affected if the Company's custodian suffers insovency or other financial difficulties. The Board reviews the custodian's annual control report and the Manager's management of the relationship with the custodian. Cash balances are limited to a maximum of 4% of the Company's aggregate investments with any one depositary, with only approved depositaries being used. At the balance sheet date the Company had £3.3 million on deposit and £2.6 million held at the custodian (2009: £2.9 million held at custodian).

Management of and Exposure to Credit Risk

The Company's principal credit risk is the risk of default of the non-investment grade debt. Where the portfolio managers make an investment in a bond, corporate or otherwise, the credit rating of the issuer is taken into account to minimise the risk to the Company of default. Investments in bonds are across a variety of industrial sectors and geographical markets to avoid concentration of credit risk. Transactions involving derivatives are entered into only with banks whose credit rating are taken into account to minimise default risk. Details of the Company's investments, including their credit ratings, are shown on pages 11 to 14.

Credit risk for transactions involving equity investments is minimised as the Company only uses approved counterparties.

Fair Values of Financial Assets and Financial Liabilities

The financial assets and financial liabilities are either carried in the balance sheet at their fair value (investments and derivatives), or the balance sheet amount is a reasonable approximation of fair value (due from brokers, dividends receivable, accrued income, due to brokers, accruals and cash). The carrying value of total gains and losses on investments, represent the total carrying amount of gains and losses on financial assets designated by the Company as financial assets at fair value through profit or loss.

Classification Under Fair Value Heirarchy

The table that follows sets out the fair value of the financial instruments of the Company into the three levels set out in Financial Reporting Standard 29 "Financial Instruments Disclosures".

Level 1 – value using quoted prices in active markets for identical assets.

Level 2 – valued by reference to valuation techniques using observable inputs other than quoted prices within Level 1.

Level 3 – valued by reference to valuation techniques using inputs that are not based on observable market data.

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of each relevant asset/liability.

	2010				*2009*			
	Level 1 £'000	***Level 2 £'000***	***Level 3 £'000***	***Total £'000***	*Level 1 £'000*	*Level 2 £'000*	*Level 3 £'000*	*Total £'000*
Financial assets								
Derivative financial instruments								
Forward foreign exchange contracts	**—**	**—**	**—**	**—**	374	—	—	374
	—	**—**	**—**	**—**	374	—	—	374
Financial assets designated at fair value through profit or loss:								
Quoted securities								
Debt securities	**—**	**98,185**	**—**	**98,185**	—	102,789	—	102,789
Other securities	**10,094**	**—**	**—**	**10,094**	8,562	—	—	8,562
Equities	**2,794**	**—**	**—**	**2,794**	3,093	—	—	3,093
Unquoted securities								
Debt securities	**—**	**—**	**106**	**106**	—	—	111	111
Equities	**—**	**—**	**266**	**266**	—	—	97	97
	12,888	**98,185**	**372**	**111,445**	11,655	102,789	208	114,652
Total for financial assets	**12,888**	**98,185**	**372**	**111,445**	12,029	102,789	208	115,026
Financial liabilities								
Bank loan	**—**	**—**	**—**	**—**	11,108	—	—	11,108
Forward foreign exchange contracts	**402**	**—**	**—**	**402**	—	—	—	—
Total for financial liabilities	**402**	**—**	**—**	**402**	11,108	—	—	11,108

Notes to the Financial Statements

continued

18. Financial Instruments *continued*

Classification Under Fair Value Heirarchy *continued*

The valuation techniques used by the Company are explained in the accounting policies note. There were no transfers in the year between any of the levels.

Normally investment company investments would be valued using stock market active prices, with investments disclosed as Level 1 and this is the case for the quoted equity investments that the Company holds. However, a majority of the investments are non-equity that are priced using Bloomberg, which in turn is based on broker quotes or pricing modules. These investments are disclosed as Level 2 – recognising that the fair values of these investments are not as visible as quoted equity investments and their higher inherent pricing risk. However, this does not mean that the fair values shown in the portfolio valuation are not achievable at point of sale.

A reconciliation of the fair value of Level 3 is set out below.

	£'000
Opening fair value of Level 3	208
Purchases	118
Investments redeemed or sold	(87)
Movement in holding gain/(losses) on assets held at the year-end	133
Closing fair value of Level 3	**372**

Level 3 valuations comprise investments held at Directors valuation as disclosed in the accounting policies note.

Maturity Analysis of Contractual Liability Cash Flows

The financial liabilities of the Company are shown in note 11. There was no bank loan at the year-end (2009: loans drawn down of £11.1 million) and liabilities include forward currency contracts contracts and accruals. All are paid under contractual terms. Forward currency contracts in place at the balance sheet date all fall due within three months. Any amounts due to brokers are usually payable on the purchase date of the investment plus three business days. Any accruals are normally payable within 30 business days of invoice or, in the case of management fees, in accordance with the management fee agreement. Other liabilities include the dividends payable after year-end totalling £2,184,000, as shown in note 8.

Capital Management Policies and Procedures

The Company does not have any externally imposed capital requirements. The Company's capital is as disclosed in the balance sheet and is managed on a consistent basis with its investment objective and policies as disclosed in the Report of the Directors' on page 22. The principal risks and their management are discussed above. The level of gearing may be varied from time to time as determined by the Board, subject to a maximum of 30% of the Company's total assets at any time.

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to what action to take, you should consult your stockbroker, solicitor, accountant or other appropriate independent professional adviser authorised under the Financial Services and Markets Act 2000. If you have sold or otherwise transferred all your shares in City Merchants High Yield Trust plc, please forward this document and the accompanying Form of Proxy to the person through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of City Merchants High Yield Trust plc will be held at 30 Finsbury Square, London EC2A 1AG on 26 May 2011 at 2.30 p.m. for the transaction of the following business:

Ordinary Business

1. To receive the Directors' Report and financial statements for the year ended 31 December 2010.
2. To approve the Directors' Remuneration Report for the year ended 31 December 2010.
3. To re-appoint Ernst & Young LLP as Auditors to hold office until the conclusion of the next Annual General Meeting and authorise the Directors to determine their remuneration.

Special Business

To consider and, if thought fit, pass the following resolutions:

Ordinary Resolutions

4. THAT:

   in accordance with Article 152 of the Articles of Association of the Company, the Directors of the Company be and they are hereby released from their obligation pursuant to such Article to convene an Extraordinary General Meeting of the Company to be held on or before 30 June 2011 at which an Extraordinary Resolution is proposed to wind up the Company.

5. THAT:

   the Directors be generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 as amended from time to time prior to the date of the passing of this Resolution (the 'Act') to exercise all powers of the Company to allot relevant securities (as defined in that Section) up to an aggregate nominal amount (within the meaning of Sections 551(3) and (6) of the Act) of £145,598 this being 10% of the Company's issued ordinary share capital, such authority to expire at the conclusion of the next AGM of the Company or the date 15 months after the passing of this Resolution, whichever is the earlier, but so that this authority shall allow the Company to make offers or agreements before the expiry of this authority which would or might require relevant securities to be allotted after such expiry as if the authority conferred by this Resolution had not expired.

Special Resolutions

6. THAT:

   the Directors be and they are hereby empowered, in accordance with Sections 570 and 573 of the Companies Act 2006 as amended from time to time prior to the date of the passing of this Resolution (the 'Act') to allot equity securities for cash, pursuant to the authority given by Resolution 5 set out above, as if Section 561 of the Act did not apply to any such allotment, provided that this power shall be limited:

   (a) to the allotment of equity securities in connection with a rights issue in favour of all holders of a class of equity securities where the equity securities attributable respectively to the interests of all holders of securities of such class are either proportionate (as nearly as may be) to the respective numbers of relevant equity securities held by them or are otherwise allotted in accordance with the rights attaching to such equity securities (subject in either case to such exclusions or other arrangements as the Directors may deem necessary or

Notice of Annual General Meeting

continued

expedient in relation to fractional entitlements or legal or practical problems under the laws of, or the requirements of, any regulatory body or any stock exchange in any territory or otherwise); and

(b) to the allotment (otherwise than in connection with a rights issue) of equity securities up to an aggregate nominal amount of £145,598 this being 10% of the Company's issued ordinary share capital

and this power shall expire at the conclusion of the next AGM of the Company or the date 15 months after the passing of this Resolution, whichever is the earlier, but so that this power shall allow the Company to make offers or agreements before the expiry of this power which would or might require equity securities to be allotted after such expiry as if the power conferred by this Resolution had not expired; and so that words and expressions defined in or for the purposes of Part 17 of the Act shall bear the same meanings as in this Resolution.

7. THAT:

the Company be generally and, subject as hereinafter appears, unconditionally authorised in accordance with Section 701 of the Companies Act 2006 ('the Act') to make market purchases (within the meaning of Section 693(4) of the Act) of its issued ordinary shares of 2p each in the capital of the Company ('Shares'):

PROVIDED ALWAYS THAT

(a) the maximum number of Shares hereby authorised to be purchased shall be 10,912,585 this being 14.99% of the Company's issued ordinary shares;

(b) the minimum price which may be paid for a Share shall be 2p;

(c) the maximum price which may be paid for a Share shall be an amount equal to 105% of the average of the middle market quotations for a Share taken from and calculated by reference to the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Share is purchased;

(d) any purchase of Shares will be made in the market for cash at prices below the prevailing net asset value per Share;

(e) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company or, if earlier, on the expiry of 15 months from the passing of this Resolution unless the authority is renewed at any other general meeting prior to such time; and

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

8. THAT:

the period of notice required for general meetings of the Company (other than AGMs) shall be not less than 14 days' clear notice.

All resolutions proposed under Special Business are explained further in the Chairman's Statement on pages 4 and 5 and in the Report of the Directors on pages 30 and 31.

Dated this 28 March 2011

By order of the Board
Invesco Asset Management Limited

Secretary

Notes:

1. A member entitled to attend and vote at the AGM is entitled to appoint one or more proxies to attend, speak and vote in his stead. Where more than one proxy is appointed, each proxy must be appointed to exercise the rights attached to a different share or shares. A proxy need not be a member of the Company. In order to be valid an appointment of proxy must be returned by one of the following methods:

   - via Capita Registrar's website *www.capitashareportal.com*; or
   - in hard copy form by post, by courier or by hand to the Company's registrars, Capita Registrars, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU; or
   - in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below

   and in each case to be received by the Company not less than 48 hours before the time of the meeting.

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

3. A form of appointment of proxy is enclosed. Appointment of a proxy (whether by completion of a form of appointment of proxy, or other instrument appointing a proxy or any CREST proxy instruction) does not prevent a member from attending and voting at this meeting.

   To be effective, the form of appointment of proxy, duly completed and executed, together with any power of attorney or other authority under which it is signed (or notarially certified copy thereof) must be lodged at the office of the Company's registrars, Capita Registrars, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU, by no later than 2.30 p.m. on 24 May 2011.

4. A person entered on the Register of Members at close of business on 24 May 2011 ('a member') is entitled to attend and vote at the Meeting pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001. Any changes to the Register of Members after such time and date shall be disregarded in determining the rights of any person to attend and/or vote at the Meeting. If the Meeting is adjourned, entitlement to attend and vote at the adjourned meeting, and the number of votes which may be cast thereat, will be determined by reference to the Company's register of members 48 hours before the time fixed for the adjourned meeting.

5. The Register of Directors' Interests, the Terms of Reference of the Board and the Audit Committee and the Letters of Appointment for Directors will be available for inspection for at least 15 minutes prior to and during the Company's AGM.

6. A copy of the Company's Articles of Association is available for inspection at the Registered Office of the Company during normal business hours until the close of the AGM and will also be available at the AGM for at least 15 minutes prior to and during the meeting.

Notice of Annual General Meeting

continued

7. Any person to whom this Notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a 'Nominated Person') may have a right, under an agreement between him/her and the member by whom he/she was nominated, to be appointed (or to have someone else appointed) as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may have a right, under such an agreement, to give instructions to the member as to the exercise of voting rights.

   The statement of the above rights of the members in relation to the appointment of proxies does not apply to Nominated Persons. Those rights can only be exercised by shareholders of the Company.

8. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

9. Any member attending the AGM has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the AGM but no such answer need be given if (a) to do so would interfere unduly with the preparation for the AGM or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the Company or the good order of the AGM that the question be answered.

10. You may not use any electronic address (within the meaning of section 333(4) of the Companies Act 2006) provided in this Notice (or in any related documents including the proxy form) to communicate with the Company for any purposes other than those expressly stated.

11. As at 28 March 2011 (being the last practicable day prior to the publication of this Notice) the Company's issued share capital consists of 72,799,105 ordinary shares of 2p each carrying one vote each. Therefore, the total voting rights in the Company as at that date are 72,799,105.

12. A copy of this notice, and other information required by Section 311A of the Companies Act 2006, can be found at *www.invescoperpetual.co.uk/investmenttrusts*.

13. Shareholders should note that it is possible that, pursuant to requests made by members of the Company under Section 527 of the Companies Act 2006 (the '2006 Act'), the Company may be required to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditors' report and the conduct of the audit) that are to be laid before the Annual General Meeting for the financial year beginning on 1 January 2010; or (ii) any circumstance connected with an auditor of the Company appointed for the financial year beginning on 1 January 2010 ceasing to hold office since the previous meeting at which annual financial reports were laid in accordance with Section 437 of the Companies Act 2006 (in each case) that the members propose to raise at the relevant Annual General Meeting. The Company may not require the members requesting any such website publication to pay its expenses in complying with Sections 527 or 528 of the 2006 Act. Where the Company is required to place a statement on a website under Section 527 of the 2006 Act, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required under Section 527 of the Companies Act 2006 to publish on a website.

Invesco Perpetual

The Manager of City Merchants High Yield Trust plc is Invesco Asset Management Limited.

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.

Invesco is one of the largest independent global investment management firms, with funds under management in excess of $641.1 billion.*

We aim to provide the highest returns available from markets, through active management, but in a controlled manner, conscious of the risks involved and within our clients' objectives.

Funds under management at 28 February 2011

SPECIALIST FUNDS MANAGED BY INVESCO PERPETUAL

Investing for Income, Income Growth and Capital Growth (from equities, fixed interest securities or property)

City Merchants High Yield Trust plc
Aims to generate a high level of income from a variety of fixed income instruments combined with a degree of security. The Company can be geared by bank debt.

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 seeks also to enhance total returns through capital appreciation generated by investments which have equity-related characteristics.

Invesco Income Growth Trust plc
Aims to provide shareholders with a long-term growth in capital and real, long-term growth in dividends from an above-average yielding portfolio comprising mainly UK equities and equity-related securities. Seeks to achieve a total return in excess of the FTSE All-Share Index. The Company is geared by bank debt.

Invesco Leveraged High Yield Fund Limited
A Jersey-incorporated closed-ended Company that aims to provide a high level of income, paid gross to UK investors, whilst seeking to maximise total return through investing, primarily in a diversified portfolio of high-yielding corporate and government bonds. The Company seeks to balance the attraction of high-yield securities with the need for protection of capital and to manage volatility. The Company is highly geared.

Invesco Perpetual Recovery Trust 2011 plc
A split-capital investment trust company with ordinary income shares, zero dividend preference shares and units (a combination of the two). Aims to meet the capital entitlements of the zero dividend preference shares and to maximise the capital and income returns of the ordinary income shares by investing primarily in equities but also debt securities which are considered to offer recovery prospects. Returns to ordinary income shareholders are geared by the prior charge of the ZDP shares. The Company has an initial life projected to end in 2011.

Invesco Perpetual Select Trust plc – Managed Liquidity Share Portfolio
Aims to generate a high level of income from a variety of fixed income instruments combined with a high degree of security.

Invesco Perpetual Select Trust plc – UK Equity Share Portfolio
Portfolio aims to generate long-term capital and income growth with real growth in dividends from investment, primarily in the UK equity market. The portfolio is geared by bank debt.

Invesco Property Income Trust Limited
The Company is a closed-ended investment company with limited liability incorporated in Jersey. The objective is to provide ordinary shareholders with an attractive level of income together with the prospect of income and capital growth from investing in commercial properties in the UK and Continental Europe. The Company is geared by bank debt.

Keystone Investment Trust plc
Aims to provide shareholders with long-term growth of capital mainly from UK investments. The Company is geared by way of debenture stocks.

Perpetual Income and Growth Investment Trust plc
Aims to generate capital growth with a higher than average income from investment, primarily in the UK equity market. It is intended that the Company will provide shareholders with real dividend growth over the medium-term by investing mainly in above-average yielding equities. However, investments are also made in companies with lower initial yields which are considered to have good potential for income growth. The Company is geared by a debenture stock and bank debt.

The Edinburgh Investment Trust plc
Invests in UK securities with long term objective of achieving:

1. an increase in the Net Asset Value per share by more than the growth in the FTSE All-Share Index; and
2. growth in dividends per share by more than the rate of UK inflation.

The portfolio is geared by way of two debenture stocks.

Investing in Smaller Companies

Invesco Perpetual UK Smaller Companies Investment Trust plc
Aims to achieve long-term total return for its shareholders via an investment vehicle which gives access to a broad cross-section of small to medium size UK-quoted companies. The Company may gear by bank debt.

Investing Internationally

Invesco Asia Trust plc
Aims to provide long-term capital growth by investing in a diversified portfolio of Asian and Australasian securities. The Company aims to achieve growth in its net asset value in excess of the Morgan Stanley Capital International (All Country) Asia Pacific (ex Japan) Index, measured in sterling. The Company is geared by bank debt.

Invesco Perpetual Select Trust plc – Global Equity Share Portfolio
Aims to produce long-term capital growth from a sensibly diversified portfolio of international equities (including the UK). The portfolio comprises the 'best ideas' of a number of Invesco Perpetual's investment managers. The portfolio is geared by bank debt.

Investing for Absolute Returns

Invesco Perpetual Select Trust plc – Hedge Fund Share Portfolio
Aims to achieve an absolute return of 3-month sterling LIBOR plus 6% per annum over a rolling 5-year period, coupled with low volatility. Capital preservation is a priority.

Investing in Multiple Asset Classes

Invesco Perpetual Select Trust plc
- UK Equity Share Portfolio
- Global Equity Share Portfolio
- Managed Liquidity Share Portfolio
- Hedge Fund Share Portfolio

A choice of asset classes within one investment trust with the freedom to switch between them, twice a year, free from capital gains tax liability.

Please contact our Investor Services Team on 0800 085 8677 if you would like more information about the investment trusts or other specialist funds listed above. Further details are also available on the following website: www.invescoperpetual.co.uk/investmenttrusts.

Linkway L15910