Invesco Perpetual Enhanced Income Limited

Annual Financial Report

Year ended 30 September 2014

INVESCO PERPETUAL AIM VCT PLC IS A VENTURE CAPITAL TRUST ("VCT") LISTED ON THE LONDON STOCK EXCHANGE.

THE COMPANY'S OBJECTIVE IS TO PROVIDE A TAX FREE DIVIDEND RETURN TO SHAREHOLDERS PRIMARILY THROUGH THE REALISATION OF CAPITAL GAINS WHILE MAINTAINING THE CAPITAL VALUE OF THE SHARES. THE COMPANY IS MANAGED AS A VCT IN ORDER THAT SHAREHOLDERS MAY BENEFIT FROM THE TAX RELIEFS AVAILABLE. IT INVESTS MAINLY IN COMPANIES QUOTED ON THE ALTERNATIVE INVESTMENT MARKET ("AIM"). ITS BENCHMARK IS THE FTSE AIM INDEX. THE MANAGER IS STOCK SELECTIVE RATHER THAN SECTOR SELECTIVE AND PLACES A HEAVY EMPHASIS ON INDIVIDUAL STOCK ACCOUNTABILITY.

If you have any queries about Invesco Perpetual Enhanced Income Limited
or any of the other specialist funds managed by Invesco Perpetual,
please contact our Investor Services Team on

☎ 0800 085 8677

www.invescoperpetual.co.uk/investmenttrusts

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The Company is a member of

aic

The Association of Investment Companies

Nature of the Company

Invesco Perpetual Enhanced Income Limited (the 'Company') is a Jersey investment company whose shares are listed and traded on the London Stock Exchange. The business of the Company consists of investing the pooled funds of its shareholders, according to a specified investment objective and policy (set out on pages 9 and 10), with the aim of spreading investment risk and generating a return for shareholders. The Company is able to borrow, the proceeds from which can also be invested according to the investment policy with the aim of enhancing returns to shareholders. This additional investment increases the potential risk to shareholders should the value of the investments fall.

The Company has contracted with an external investment manager, Invesco Fund Managers Limited (the 'Manager'), to manage its investments. Administrative functions are contracted to external service providers, the main one being with R&H Fund Services (Jersey) Limited for company secretarial and administrative services. The Company has a Board of non-executive Directors who oversee and monitor the activities of the Manager and other service providers on behalf of shareholders and ensure that the investment policy is adhered to. The Company has no employees.

Investment Policy

The principal objective of the Company is to provide shareholders with a high level of income whilst seeking to maximise total return through investing in a diversified portfolio of high yielding corporate and Government bonds. The Company may also invest in equities and other instruments that the Manager considers appropriate.

The Company seeks to balance the attraction of high yield securities with the need for protection of capital and to manage volatility. The Company generally employs gearing in its Investment Policy. Full details of the Company's Investment Policy can be found on pages 9 and 10.

Borrowings and Repo Finance

The Company uses borrowings in its Investment Policy, the principal component of which is repo finance, whereby the Company participates in sale and repurchase arrangements in connection with its portfolio. Under these arrangements, the Company sells fixed interest securities and is contractually obliged to repurchase them at a fixed price on a fixed date.

Alternative Investment Fund Manager (AIFM)

Invesco Fund Managers Limited (IFML) was authorised by the FCA as an AIFM and appointed by the Company as the Company's Manager, with effect from 22 July 2014. IFML is an associated company of Invesco Asset Management Limited (IAML), the previous Manager, and IAML continues to manage the Company's investments under delegated authority from IFML.

The Company's shares qualify to be considered as a mainstream investment product suitable for promotion to retail investors.

FINANCIAL INFORMATION AND PERFORMANCE STATISTICS

Performance Statistics

Terms marked † are defined in the Glossary of Terms on page 63.

Balance sheet at 30 September	2014	2013	% CHANGE
Shareholders' funds (£'000)	81,573[1]	79,809	+2.2[1]
Net asset value† per ordinary share	72.6p	71.7p	+1.3
Share price	74.4p	67.0p	+11.0
Premium/(discount)† per ordinary share	2.5%	(6.6%)	
Gross borrowing†	41%	42%	
Net borrowing†	33%	35%	

(1) reflects 1,075,000 ordinary shares issued in the year.

Total Return	YEAR ENDED 30 SEPTEMBER 2014	YEAR ENDED 30 SEPTEMBER 2013
3 month LIBOR rate	+0.6%	+0.5%
Net asset value†	+8.2%	+17.8%
Share price	+19.0%	+21.1%

Source: Invesco/Thomson Reuters Datastream.

Revenue	YEAR ENDED 30 SEPTEMBER 2014	YEAR ENDED 30 SEPTEMBER 2013
Gross income (£'000)	6,550	6,905
Net revenue available for ordinary shares (£'000)	5,578	6,056
Dividends per ordinary share:		
– First interim	1.25p	1.25p
– Second interim	1.25p	1.25p
– Third interim	1.25p	1.25p
– Fourth interim	1.25p	1.25p
– Total	5.00p	5.00p
Ongoing Charges†		
– ongoing charges	1.39%	1.39%
– performance fee	1.64%	1.37%
Return per Ordinary Share		
Revenue return	5.0p	5.5p
Capital return	0.9p	6.2p
Total return	5.9p	11.7p

Ten Year Historical Record

TO 30 SEPTEMBER *(LAUNCHED ON 15 OCTOBER 1999)*	GROSS INCOME £'000	NET REVENUE AVAILABLE FOR ORDINARY SHARES £'000	DIVIDENDS ON ORDINARY SHARES COST £'000	DIVIDENDS ON ORDINARY SHARES RATE(2)(4) p	TOTAL ASSETS LESS CURRENT LIABILITIES(1) £'000	ORDINARY SHARES NET ASSET VALUE(2) p	ORDINARY SHARES SHARE PRICE(2) p
2005	2,948	2,196	2,000	10.0	43,301(3)	105.2(3)	108.0
2006	4,290	3,311	2,248	10.0	85,628	105.0	109.8
2007	8,222	6,475	4,985	10.0	146,475	101.7	102.5
2008	12,859	10,222	6,255	7.5	135,171	62.1	65.3
2009	7,378	6,406	5,570	5.0	88,598	56.6	55.0
2010	7,613	6,695	5,570	5.0	102,688	65.9	62.8
2011	7,203	6,283	5,570	5.0	101,701	54.3	50.0
2012	6,879	5,988	5,565	5.0	100,163	65.1	59.9
2013	6,905	6,056	5,564	5.0	113,511	71.7	67.0
2014	**6,550**	**5,578**	**5,583**	**5.0**	**114,964**	**72.6**	**74.4**

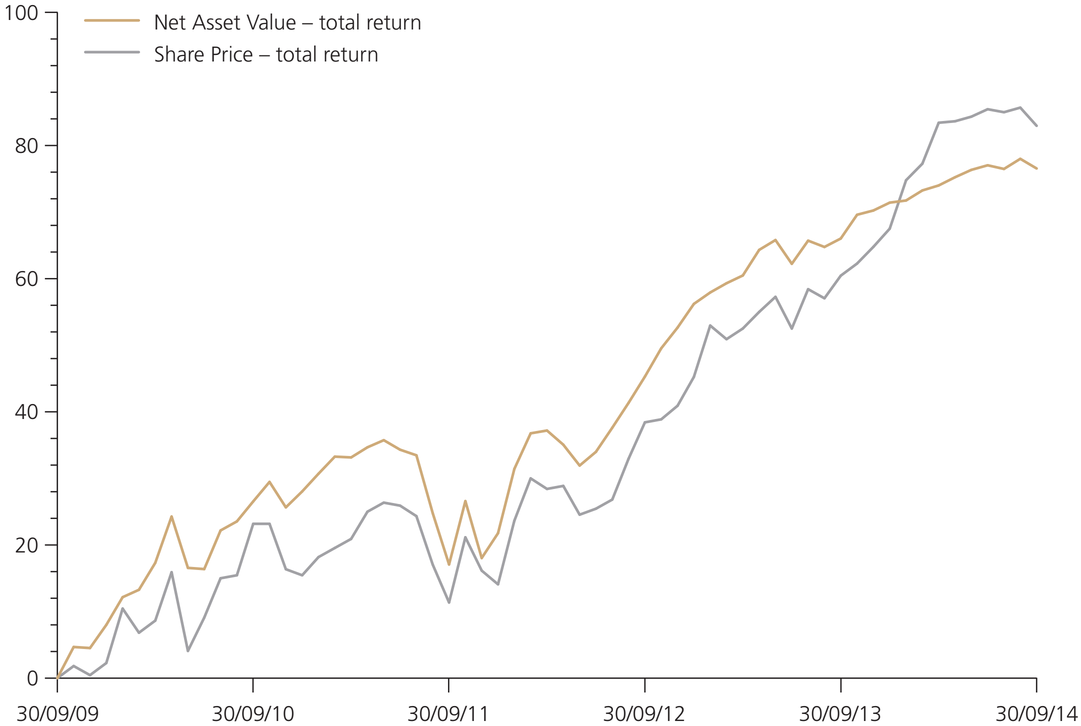
(1) Excludes both long-term and short-term loans and repo financing.

(2) Ordinary shares were consolidated to one ordinary share of 5p each for every five ordinary shares of 1p each on 26 April 2005. Prior period figures have been restated to take account of this.

(3) Restated for International Financial Reporting Standards.

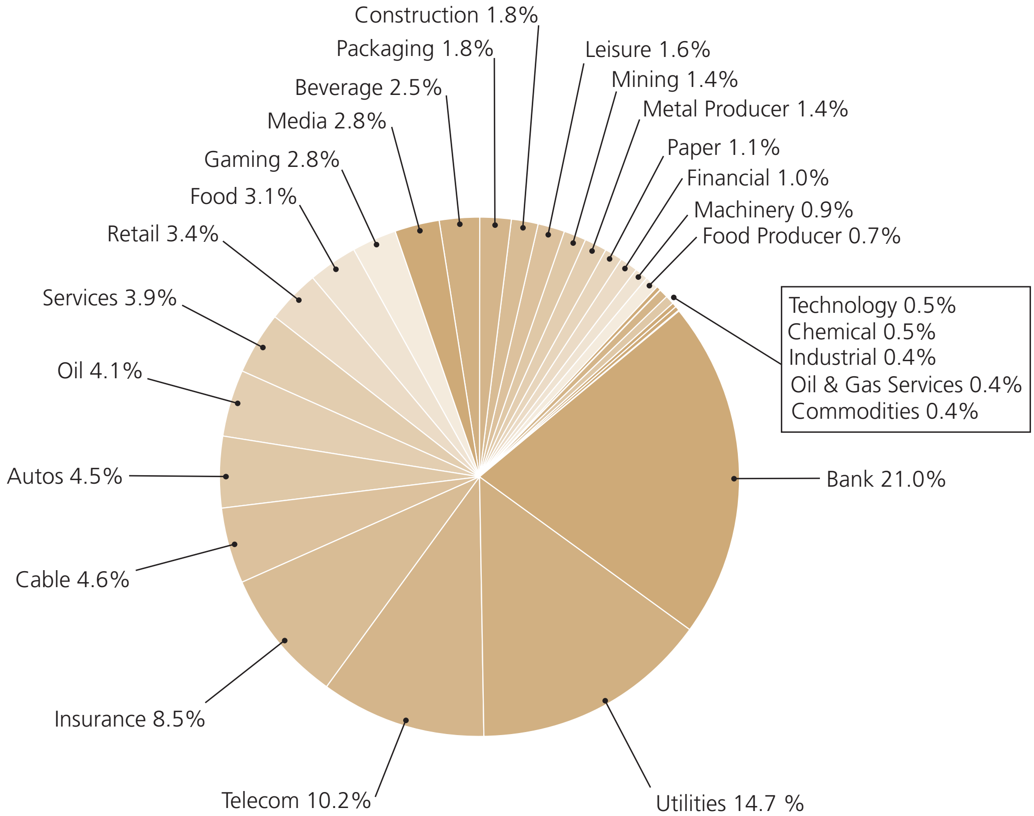
(4) Dividends are in respect of the year and are paid on a quarterly basis with effect from 1 October 2010.

Five Year Total Return Performance



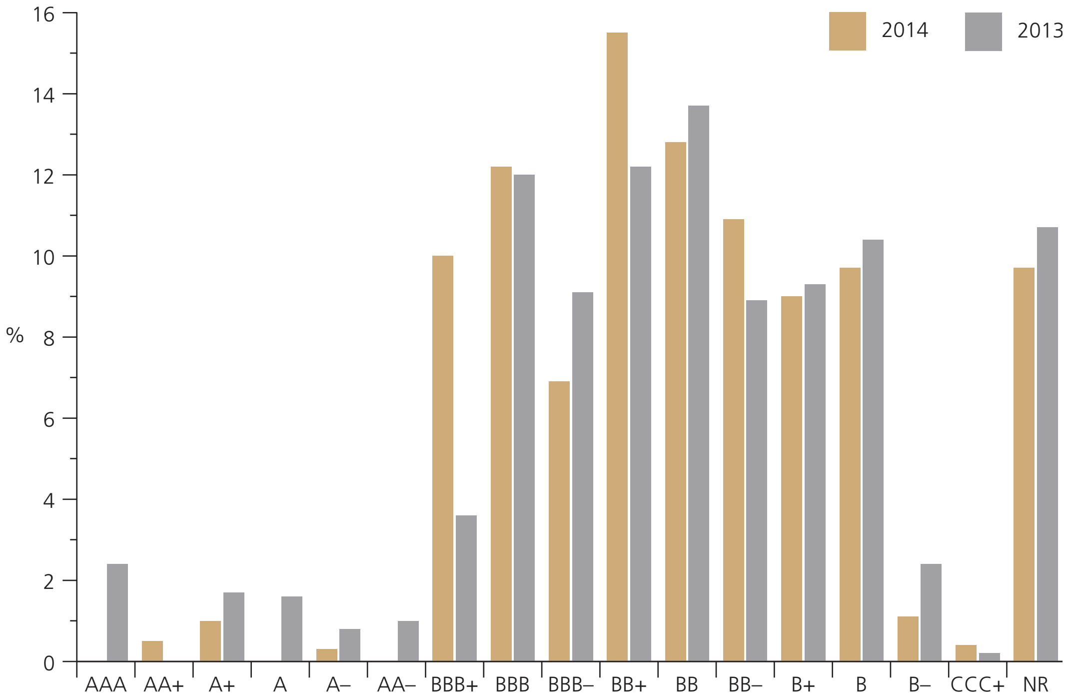
FINANCIAL INFORMATION AND PERFORMANCE STATISTICS
continued

Split of Investments by Sector
At 30 September 2014



BOND RATING ANALYSIS
AT 30 SEPTEMBER 2014

For the definitions of these ratings see the Glossary of Terms on page 63.



CHAIRMAN'S STATEMENT

Introduction

Despite market conditions that were at times challenging, the year under review has delivered positive returns for shareholders. The Company's portfolio generated a positive NAV total return of 8.2%. This compares, according to data from Merrill Lynch, to a price return for the European high yield market of 8.8%, for the sterling investment grade corporate bond market of 8.1% and for the Gilt market of 5.9%. In an environment where many of the traditional sources of income have fallen, the Company continues to provide an attractive income stream.

Results

Against this background the Company's net asset value (NAV) per share increased by 1.3% and shareholders' funds by 2.2%, the difference reflecting the new shares issued during the year (see below). The price of the Company's shares rose 11% from 67.0p at the start of the year to 74.4p. In relative terms, the volatility of the Company's NAV has been low; despite significant movements in bond markets during the year. Results for the last three years to 30 September 2014 have also been good with the NAV and share price increasing 71.6% and 89.8% respectively. The equivalent three year period Merrill Lynch price returns are: European high yield market 51.95%; sterling investment grade corporate bond market 30.19%; and Gilt market 11.66%.

As a result of the strong performance of the Company's NAV, a performance fee of £1,340,000 is payable to the Manager. The performance fee is equal to the net of 20% of the amount by which the total return exceeded the hurdle return of sterling LIBOR plus 1%. As part of the investment management fee discussions (see below), the Manager has agreed that 30% of the 2014 performance fee earned will be invested in shares of the Company and held for a minimum of 12 months.

Dividend

Your Board believes that shareholders continue to value highly the Company's dividend stream and has prioritised revenue generation through investment in relatively high-yielding and secure debt positions. Market yields remain at historically low levels. However, despite this challenging environment your portfolio managers have again generated a return per share of 5p sufficient to cover the 5p dividend for the year. One of the unique benefits of closed-end funds is their ability to build reserves when income allows; continued careful management of the Company's income over several years means that the Company has built revenue reserves equivalent to approximately two years of annual dividends.

A fourth interim dividend of 1.25p per share was declared by your Board on 18 September 2014, giving total dividends for the year of 5p (2013: 5p). The Board intends that the Company will maintain an annual dividend of not less than 5p per share, paid equally and quarterly, in the absence of unforeseen circumstances.

Borrowings

The Company's ordinary shares are geared by repo financing. Your Company began the year with net borrowings of 35%, decreasing marginally to 33% at the year end. Average net borrowings for the year were 29.5% (2013: 29.5%).

Repo financing remains a very flexible and relatively low cost method of providing additional capital when appropriate, and the very low interest rate environment affords the investment managers an ability to achieve an attractive 'carry' on the investments. The level of borrowing is carefully monitored and managed by both the Board and the investment managers, fully cognisant of the greater capital volatility that comes with the enhancement to income.

Alternative Investment Fund Managers Directive (the Directive)

As announced on 22 July 2014, the Company has entered into arrangements to ensure compliance with the Directive. The Board has appointed Invesco Fund Managers Limited (IFML) as the Company's Alternative Investment Fund Manager (the 'Manager'). The existing investment management agreement between the Company and Invesco Asset Management Ltd (IAML) has been terminated, although IAML will continue to manage the Company's investment portfolio under delegated authority from IFML. It is not expected, or intended, that these new arrangements will result in any change to the way the Company's assets are invested.

The Directive also required the Company to appoint a depositary and the Board has chosen to appoint BNY Mellon Trust & Depositary (UK) Limited. The depositary has delegated safe keeping of the Company's investments to the Company's previous custodian, The Bank of New York Mellon (London Branch).

Investment Management Fees

I am pleased to report that following constructive discussions with the Company's Manager, a more shareholder friendly fee structure which will allow economies of scale to be shared between the Manager and the Company as the Company grows in size has been agreed. The revised management fee structure applies with effect from the start of the Company's financial year beginning 1 October 2014. The management fee (currently 1% per annum of shareholders' funds) will be 1% on the first £80million of shareholders' funds; 0.7% on the next £70 million; and 0.6% on any excess of shareholders' funds over

£150 million. Similarly the performance fee, currently payable at a rate of 20% of outperformance over a hurdle of LIBOR +1% will be stepped, reducing to 10% of outperformance in respect of shareholders' funds in excess of £80 million; in addition payment of the performance fee will be subject to various constraints and 30% payment deferral. Full details of the revisions can be found on page 32. This change will act to reduce the overall costs borne by the Company and enhance shareholder value.

Portfolio Management Arrangements

With effect from 2 June 2014, the Company appointed Rhys Davies as Deputy Portfolio Manager to assist Paul Read and Paul Causer, who remain lead Portfolio Managers. Rhys has been associated directly with the Company's portfolio for several years carrying out fundamental analysis to help construct the best portfolio to implement the Company's investment strategy.

Share Discount/Premium and Share Issuance

In 2013, the Company introduced a reduced upper gearing limit to its maximum borrowings under its repo financing arrangement and changed its name to better reflect the importance of income. In a world of near-zero interest on bank deposits, income has remained a priority for many investors and this has been reflected in the demand for the Company's shares. The share price rating has moved from a 6.6% discount at the beginning of the year to an average premium over the last six months of 3%, demonstrating an excess of demand over supply. To help meet the increasing demand for the Company's shares from the market and to prevent the emergence of an excessive and potentially destabilising premium, the Company issued 1,075,000 new shares during the year at an average price of 76.08p which resulted in an enhancement to NAV of 0.04%. Subsequent to the year end, a further 1,004,767 new shares have been issued at an average price of 74.56p.

When considering any issue of new shares, your Board is mindful that existing shareholders' interests must be paramount and will always ensure that issues of new shares take place at a premium to cum dividend NAV.

Share Buy Backs

Your Directors are seeking the authority to buy back up to 16,994,506 shares (14.99% of the Company's issued share capital as at 26 November 2014) subject to the restrictions referred to in the notice of the AGM. This authority will expire at the AGM in 2016. It is the Board's current intention to buy back shares at a discount to NAV where the Board believes it is in shareholders' interests to do so. Your Directors are proposing that shares bought back by the Company either be cancelled or, alternatively, be held as treasury shares with a view to their resale, if appropriate, or later cancellation.

Corporate Governance

The Board continues to be committed to maintaining the highest standards of Corporate Governance and is accountable to you as shareholders for the governance of the Company's affairs. The Directors believe that, during the year under review, they have complied with the provisions of the AIC Code of Corporate Governance, as endorsed by the Financial Reporting Council.

Outlook

As you will read in the portfolio managers' report which follows, although yields are still low by historical standards they remain relatively high compared to core government bonds. In Europe, Bund yields are currently negative out to a maturity of three years and in recent weeks this spread has increased further as some value has started to come back into the high yield sector. The portfolio maintains a bias toward quality with the allocation to investment grade increasing from 28.0% in September 2013 to 30.4% in September 2014. Looking ahead, it is believed that high yield debt can provide shareholders with a good source of relatively attractive income and to this end your portfolio managers continue to focus on identifying security selection opportunities.

Annual General Meeting (AGM)

The Company's Notice of AGM is contained on pages 58 to 60 and will be held at 10.00 a.m. on Tuesday, 3 February 2015. A summary of the resolutions is set out in the Directors' Report on page 34. I would like to take this opportunity to draw shareholders' attention to Special Resolution 6. Although Jersey law does not require shareholder approval for issuing new shares, the Directors are taking this opportunity to re-affirm their previous commitment, and in accordance with best practice, that in any rolling 12 month period they will not issue shares on a non-pre-emptive basis which in aggregate exceed 10% of the shares in issue without first obtaining shareholders' consent. Accordingly, Special Resolution 6 seeks shareholder permission for Directors to issue shares on a non-pre-emptive basis up to 10% of the existing shares in issue at the time of the AGM. The Directors have considered all the resolutions proposed in the Notice of AGM and, in their opinion, consider them to be in the interests of shareholders as a whole. The Directors therefore recommend that shareholders vote in favour of each resolution.

Donald Adamson
Chairman

26 November 2014

STRATEGIC REPORT

FOR THE YEAR ENDED 30 SEPTEMBER 2014

PORTFOLIO MANAGERS' REPORT

Market Background

Bond market returns were mixed over the year to September 2014 with higher quality bonds in aggregate tending to outperform bonds of lower quality.

The period began with the market digesting the news that the US Federal Reserve was not going to start tapering in September 2013. This surprise decision increased expectations that the process would begin in December. In anticipation of the reduction in additional liquidity, bond yields backed up through much of Q4 2013. However through 2014, as the tapering program was actually implemented, bond markets went 'off script'. An unusually cold winter in the US led to a fall in economic activity, pushing out expectations of US interest rate rises. Geopolitical uncertainty in Ukraine and the Middle East fuelled demand for perceived safe haven assets such as Gilts. Disappointing European growth and inflation data raised market expectations that the European Central Bank (ECB) would eventually need to implement quantitative easing (QE). As a result, German Bund yields at one stage in the summer fell to below 0.9%, which helped suppress other core government bond yields.

For the first six months of 2014 the high yield market benefitted from both the positive impact of falling government bond yields and the continued search for income. However, through the summer, we started to see high yield bonds give back some performance. In the US the high yield market experienced significant retail led outflows, while in Europe concerns over the weakening Eurozone economy led lower quality high yield bonds to underperform.

Alongside the macro concerns, there was a reminder of company specific risk with two high profile companies experiencing significant difficulty. Portuguese group Banco Espirito Santo was forced to restructure in July and Phones 4U collapsed in September. Both companies' difficulties led to an increase in the level of market volatility.

According to data from Merrill Lynch, European Currency high yield bonds had a total return for the twelve month period under review of 9.1%. The review period was essentially split into two distinct periods with the index providing a positive return of 9.8% for the nine months to 30 June 2014 and a negative return of –0.7% for the remaining three months to 30 September 2014. Over the year there was also considerable variance within the credit rating sectors of this index: BB rated bonds returned 10.3% while CCC rated and below returned 4.7%. The aggregate yield for the overall high yield market ended 82bps lower at 4.82%. By comparison, sterling investment grade corporate bonds returned 8.1%, yields falling 26bps. (All returns sterling hedged).

Portfolio Strategy

We hold a core of high yield corporate bonds, focused on seasoned issuers that we consider to be default-remote. In addition, we hold significant exposure to areas of the market which we believe still offer relatively attractive yield. Approximately one fifth of the portfolio is invested in bank capital, predominantly in the subordinated debt of large European banks. Within the new regulatory environment, the fundamentals of this sector have continued to improve as banks have de-leveraged, notwithstanding recent large scale downgrades by S&P, as they have sought to assess the features of new issuance in this area. We also have holdings in hybrid capital instruments across sectors including telecoms and utilities. We believe the subordination risk of these more junior debt instruments is attractive in the context of these companies' relatively strong balance sheets. Over 30% of the securities we hold are in investment grade names. We continue to seek opportunities to add yield to the portfolio where we consider that the balance of reward to risk is attractive.

Results

In the financial year under review, the Company's NAV rose from 71.7p to 72.6p, with a total NAV return of 8.2%. We commenced the financial year with net borrowing of 35% and net assets of £79.8 million. Net borrowing decreased modestly over the year to close at 33%, while net assets rose to £81.6 million. Funding costs remain relatively low. The Company's total dividend for the year to 30 September 2014 is 5p per share.

Outlook

Following recent market weakness we are starting to see some relatively attractive valuation levels within the high yield universe that we are selectively looking to exploit. Over the twelve months we have seen an increase in leverage and in the issuance of debt to finance acquisitions and dividend payments. However, with demand falling over the summer, some companies have postponed further issuance, while the level of concession on new issues that are offered has increased. Looking ahead, we think that high yield debt can continue to provide a good source of relatively attractive income.

PORTFOLIO MANAGERS' REPORT continued

The demand for income remains a powerful driving force in financial markets. Although still low by historical standards, yields remain relatively high compared to core government bonds. This is particularly the case in Europe where Bund yields are negative out to a maturity of three years. We remain focused on security selection and building a portfolio that we feel can give us an attractive balance of reward to risk.

Paul Read/Paul Causer
Portfolio Managers

Rhys Davies
Deputy Portfolio Manager

26 November 2014

BUSINESS REVIEW

Background to the Company

The Company is a Jersey based, London listed investment company which at the year end had a portfolio of investments with a market value in excess of £100 million. The Company's investment objective is shown below. The strategy the Board follows to achieve that objective is to set investment policy and risk guidelines, together with investment limits, and to monitor how they are applied. These are set out below and have been approved by shareholders.

The business model the Company has adopted to achieve its objective has been to contract the services of:

– Invesco Fund Managers Limited (the 'Manager'), appointed on 22 July 2014, to manage the portfolio in accordance with the Board's strategy. Prior to 22 July 2014, these services were contracted to Invesco Asset Management Limited; and

– R&H Fund Services (Jersey) Limited to provide company secretarial and general administration services.

For the purposes of the Alternative Investment Fund Managers Directive, the Company became an alternative investment fund during the year. This has had no impact on the business model adopted by the Company.

The Board has oversight of the Company's service providers, and monitors them on a formal and regular basis.

The portfolio managers responsible for the day-to-day management of the portfolio are Paul Read and Paul Causer. Rhys Davies was appointed as the Deputy Portfolio Manager on 2 June 2014.

Investment Policy

The Company's Investment Policy comprises its investment objective, investment policy and risk and investment limits and is designed so as to provide shareholders with information on the policies that the Company will follow relating to asset allocation, risk diversification and gearing, including maximum exposures.

The Manager monitors the investment portfolio on an ongoing basis to ensure adherence to the Company's Investment Policy.

Investment Objective

The Company's principal objective is to provide shareholders with a high level of income whilst seeking to maximise total return through investing in a diversified portfolio of high yielding corporate and Government bonds. The Company may also invest in equities and other instruments that the Manager considers appropriate.

The Company seeks to balance the attraction of high yield securities with the need for protection of capital and to manage volatility. The Company generally employs gearing in its Investment Policy.

Investment Policy and Risk

Efficient portfolio management, may include the reduction of risk, reduction of cost and the enhancement of capital or income, including transactions designed to hedge all or part of the investment 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 enter into a derivative transaction provided the maximum exposure (including any initial outlay in respect of the transaction) to which the Company is committed by virtue of the transaction, when aggregated with all other outstanding derivative positions, is covered by the Company's net assets.

The Manager may invest in money market instruments and currencies.

BUSINESS REVIEW continued

The Company may borrow for investment purposes and principally does so using repo agreements. Under the repo financing, the Company sells fixed interest securities held by it to a counterparty for consideration that is less than such assets' market value and agrees to repurchase on a fixed date the same assets for a fixed price above the consideration received by it on the sale. The difference in these two amounts equates to the cost (effectively interest) of the repo financing.

Investment Limits

The Board has prescribed limits on the Investment Policy, among which are the following:

– investments in equities are restricted to no more than 20% of the Company's investment portfolio;
– no single investment (bond or equity) may exceed 10% of gross assets;
– no more than 5% of gross assets may be exposed to unquoted investments;
– no more than 15% of the Company's gross assets will be invested in other investment companies (including investment trusts); and
– repo financing and other borrowings may be used to raise the exposure to bonds and equities. Net borrowings (comprising aggregate borrowings less cash) may not, at the time of drawdown, exceed 50% of shareholders' funds (as determined under the Company's normal accounting policies).

For the purpose of the investment limits, excluding the borrowing limit, gross assets is defined as the investment portfolio plus cash and the limits are measured at time of investment.

Gearing Policy

Under the Company's Investment Policy, borrowings may be used to raise exposure to bonds and equities and may not exceed 50% of shareholders' funds after such adjustments, exclusions and deductions as are specified in the Company's Articles. Gearing levels will change from time to time in accordance with the Manager's assessment of risk and reward.

From time to time, the Company arranges facilities for repo financing with counterparties. The Company manages counterparty exposure to ensure that under normal circumstances its exposure to the creditworthiness or solvency of any one counterparty does not exceed 20% of its gross assets. The Company's exposure to any one counterparty is calculated for these purposes as the difference between the aggregate amount owed by that counterparty to the Company less the aggregate amount owed by the Company to that counterparty.

The effective cost of the repo financing is allocated over the period to repurchase at a constant rate and is charged 50% to revenue and 50% to capital. Each repo financing arrangement typically has a fixed life of between one and six months. The short-term nature of the repo financing means that the effective cost of the Company's borrowings will fluctuate from time to time in accordance with the market rates of repo financing (which are closely related to interest rates).

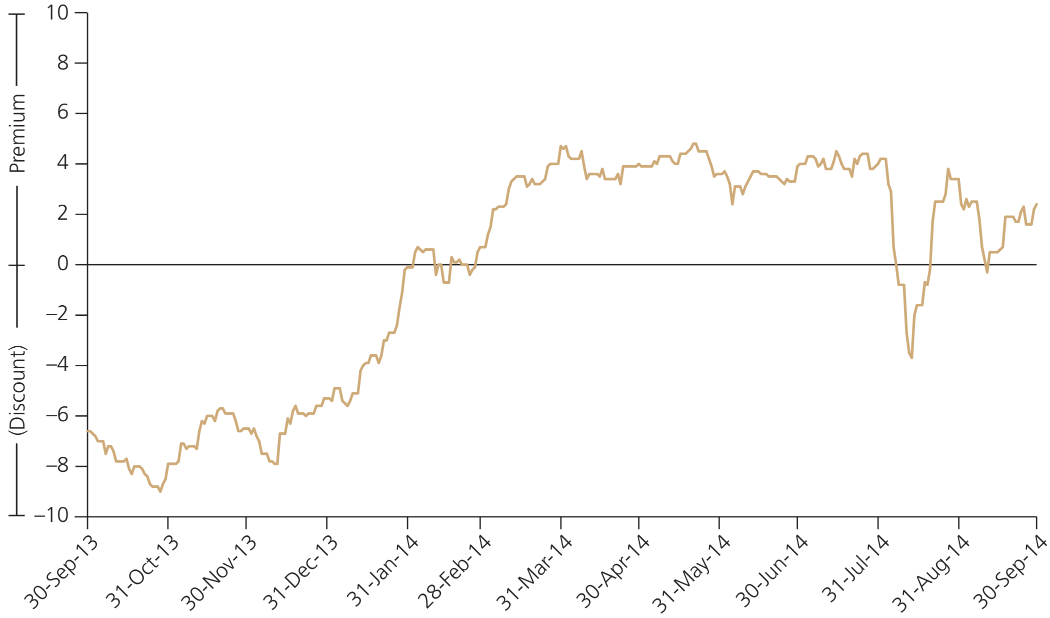
Key Performance Indicators

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

- portfolio performance;
- net asset value (NAV);
- share price;
- premium/discount;
- dividends; and
- ongoing charges.

The Company's focus has been on absolute returns. The **portfolio performance** of the Company is commented on in both the Chairman's Statement on pages 5 and 6 and, in more detail, in the Portfolio Managers' Report immediately following. These also set out the **NAV** and **share price** total return performance for the year, with the NAV increasing 8.2% (2013: 17.8%) and the share price increasing 19% (2013: 21.1%). For a longer term view, the graph on the bottom of page 3 shows the increase in these for the five years ended 30 September 2014. As a result of significant outperformance during the year, a performance fee of £1,340,000 (2013: £1,072,000) has arisen, as detailed on page 32.

The Board monitors the price of the Company's shares in relation to their NAV and the **premium/ discount** at which they trade. A small premium implies that there is demand for the shares and that there are sufficient shares in the market to satisfy that demand. Over the year the shares have moved from trading at a discount of 6.6% at the start of the year to a premium of 2.5% at the year end. This is illustrated by the graph below.



The Board and Manager closely monitor movements in the Company's ordinary share price and dealings in the Company's ordinary shares. To enable the Board to take action to deal with any significant overhang or shortage of ordinary shares in the market, it seeks approval from shareholders every year to allow for the buy back of ordinary shares (for cancellation or to be held as treasury shares). This may assist in the management of any discount the Company may trade at, but the primary reason for buying back ordinary shares is to enhance investor value.

Any buy back of shares will be made within guidelines established from time to time by the Board and the making and timing of any buy backs will be at the absolute discretion of the Board. Buy backs will only be made where the Directors consider it to be in the interests of shareholders as a whole, taking into consideration the working capital and cashflow requirements of the Company.

The Board also has the power to issue new ordinary shares if it is in shareholders' interests to do so.

Dividends are a key component of the total return to shareholders, and the level of potential dividend payable and income from the portfolio is reviewed at every board meeting. The Company has paid 5p each year in respect of the six financial years to 30 September 2014. The Company will only pay dividends in respect of a year to the extent that it has accumulated profits available for that purpose.

The expenses of managing the Company are carefully monitored by the Board at every meeting. It is the intention of the Board to minimise the **ongoing charges** which provide a guide to the effect on performance of all annual operating costs of the Company. For this and the previous year the ongoing charges (which exclude the performance fee) was 1.39%, and the Board considers this ratio to be acceptable. Subsequent to the year end, fees payable to the Manager were revised as explained in both the Chairman's Statement and in detail on page 32. As a result there will be a corresponding reduction in the ongoing charge next year and thereafter.

Financial Position

As at 30 September 2014, the Company's net assets were £82 million (2013: £80 million).

These comprised a portfolio of predominantly corporate and government bonds. Due to the realisable nature of the majority of the Company's assets, cash flow does not have the same

BUSINESS REVIEW continued

significance as for an industrial or commercial company. The Company's principal cash flows arise from the purchases and sales of investments, repo financing and the income from investments against which must be set the costs of borrowing and management expenses.

As explained previously, the ordinary shares are geared by the repo financing. As at 30 September 2014, net borrowing was 33% (2013: 35%).

Future Trends

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 Portfolio Managers' Report on pages 7 and 8. Further details as to the risks affecting the Company are set out in the next section.

Principal Risks and Uncertainties

Investment Policy (incorporating the Investment Objective)

There is no guarantee that the Company's investment objective will be achieved or provide the returns sought by shareholders. The Board has established guidelines to ensure that the investment policy that has been approved is pursued by the Manager.

Market Risk

The majority of the Company's investments are traded on the 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 investment 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, competition, environmental laws and by changing investor demand. In addition, there is a risk that European policy makers fail to maintain the current fragile market confidence by not implementing an effective and lasting solution to the Eurozone crisis. The Manager strives to maximise the total return from the investments held, but these investments are influenced by market conditions and the Board acknowledges the external influences on investment portfolio performance.

Investment Risk

The investment process employed by the Manager is set out in the first paragraph under Investment Policy and Risk on page 9.

Investment portfolio performance is dependent on the performance of high yield corporate bonds. These stocks are particularly influenced by prevailing interest rates, government monetary policy and by demand for income. The Manager strives to maximise both capital growth and high income from the investment portfolio. The inherent risk of investment is that the stocks selected for the portfolio do not perform.

The Company is likely, from time to time, to maintain a more concentrated investment portfolio (both in terms of individual holdings and in terms of its exposure to particular industries) than those of many other investment funds. Accordingly, shareholders should be aware that the investment portfolio potentially carries a higher level of risk than a more diversified investment portfolio.

The Company is permitted from time to time to invest in other listed investment companies (including investment trusts) subject to a limit on such investment of 15% of its gross assets. As a consequence of these investments, the Company may itself be indirectly exposed to gearing through the borrowings of these other investment companies. The Company is not currently invested in any listed investment companies (including investment trusts).

The performance of the Manager is carefully monitored by the Board, and the continuation of the Manager's mandate is reviewed each year.

Past performance of the Company is not necessarily indicative of future performance.

A fuller discussion of the economic and market conditions facing the Company and the current and future performance of the investment portfolio of the Company is discussed in both the Chairman's Statement on pages 5 and 6 and in the Portfolio Managers' Report on pages 7 and 8.

Foreign Exchange Risk

The movement of exchange rates may have unfavourable or favourable impact on returns as the Company holds non-sterling denominated investments and cash. This risk is partially mitigated by the use of non-sterling denominated repo financing and the use of forward currency contracts. The foreign currency exposure of the Company is monitored by the Manager on a daily basis and formally at Board meetings.

Shares

The market value of the ordinary shares of the Company will be affected by a number of factors, including the dividend yield from time to time of the ordinary shares, prevailing interest rates and supply and demand for those ordinary shares, along with wider economic factors and changes in the law, including tax law, and political factors. The market value of, and the income derived from, the Company's ordinary shares can fluctuate and may go down as well as up. The market value of the ordinary shares may not always reflect the NAV per ordinary share.

While it is the intention of Directors to pay dividends to shareholders on a quarterly basis, the ability to do so will largely depend on the amount of income the Company receives on its investments, the timing of such receipts and the cost of the repo financing. Any reduction in income receivable by the Company, or increase in the cost of the repo financing, will lead to a reduction in earnings per share and therefore in the Company's ability to pay dividends. Accordingly, the amount of dividends payable by the Company may fluctuate.

Gearing Returns Using Borrowings

Borrowing levels may change from time to time in accordance with the Manager'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 NAV (which is likely to adversely affect the Company's share price). Any reduction in the number of ordinary 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. Net borrowing may not exceed 50% of shareholders' funds.

If it were not possible to roll over any repo financing on any repurchase date on acceptable terms, the amounts then owing by the Company under the repo financing arrangement would become payable to the counterparty. Also, although the repo financing requires the counterparties to sell the assets to the Company on the repurchase date at a fixed price, if a counterparty failed to do so the Company would be left with a contractual claim against the defaulting counterparty and there is no guarantee the Company would be able to recover all or any of the value of the assets from that counterparty. In adverse market conditions, the risks of counterparty default may be greater than at other times.

There is no guarantee that it will be possible to re-finance the repo financing or any other borrowings on their maturity either at all or on terms that are acceptable to the Company.

The Company currently has arranged facilities for repo financing with three counterparties. All borrowings, including repo financing, are actively managed by the Manager and monitored by the Board. If one or more of the counterparties with which the Company enters into repo financing decided to stop accepting non-investment grade bonds as collateral for repo financing or decided otherwise to restrict the repo financing currently provided to the Company then the Company may be unable, or it may be impracticable, to continue utilising repo financing and/or to replace its current repo financing as it expires. In certain circumstances, such as a material increase in the margins payable on repo financing, it may be uneconomical for the Company to continue utilising repo financing. The counterparties may force closure of the repo financing positions in which case the Company may be forced to repay the repo financing at short notice and the Company may be forced to sell assets at short notice to repay that debt and may not be able to realise the expected market value of those assets.

High Yield Corporate Bonds

Corporate bonds are subject to credit, liquidity, duration and interest rate risks. Adverse changes in the financial position of an issuer of corporate bonds 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.

BUSINESS REVIEW continued

The majority of the Company's investment portfolio at the year end 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, but investment in such securities involves 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 corporate bonds may make it difficult for the Company to sell those bonds at or near their purported value. This may particularly be the case if the Company is forced to sell assets quickly, for example, to repay any repo financing that becomes unexpectedly repayable or which it is not possible to rollover or in the event of a liquidation of the Company. A lack of liquidity in corporate bonds may also make it difficult or impossible to rebalance the Company's investment portfolio as and when it believes it would be advantageous to do so. To mitigate these risks, the portfolio managers actively monitor both the ratings and liquidity of the bond portfolio in relation to the Company's known repo financing requirements.

Derivatives

The Company may enter into derivative transactions (including options, futures, contracts for difference, credit derivatives and interest rate swaps) for the purpose 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 investment 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 extent that repo financing has not offset such exposure.

Derivative instruments can be highly volatile and expose investors to a higher risk of loss. The low initial margin deposits or low initial amounts payable in relation to or to enter into some derivatives enable a higher degree of leverage than might be acquired in respect of a direct investment in the underlying asset. As a result, relatively small fluctuations in the value of the underlying asset or the subject of the derivative may result in a substantial fluctuation in the value of the derivative, either up or down. In addition, the amount of loss to the Company through holding a derivative may not be restricted to, and indeed may be many times greater than, the initial margin deposit or amount payable in respect of the derivative. Daily limits on price fluctuations and position limits on exchanges may prevent prompt liquidation of positions resulting in potentially greater losses.

Where derivatives are used for hedging, there is a risk that the returns on the derivative do 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.

Trading in derivatives markets may be unregulated or subject to less regulation than other markets.

Derivative markets are historically relatively new and there are uncertainties as to how these markets will perform during periods of unusual price volatility or instability, market liquidity or credit distress, including current market circumstances. The Company could suffer substantial losses from its derivatives holdings in these or other situations.

Reliance on External Service Providers

The Company has no employees and the Directors have all been appointed on a non-executive basis. The Company is reliant upon the performance of third party service providers for its executive function. The Company's most significant contract is with the Manager, to who the responsibility for the Company's portfolio is delegated. The Company has other contractual arrangements with third parties to act as company secretary, registrar, depositary and broker. Failure by any service provider to carry out its obligations to the Company in accordance with the terms of its appointment could have a materially detrimental impact on the operation of the Company and could affect the ability of the Company to successfully pursue its investment policy and expose the Company to reputational risk.

The Manager may be exposed to the risk that litigation, misconduct, operational failures, negative publicity and press speculation, whether or not it is valid, will harm its reputation. Any damage to the reputation of the Manager could result in counterparties and third parties being unwilling to deal with the Manager and by extension the Company. This could have an adverse impact on the ability of the Company to pursue its investment policy.

The Board seeks to manage these risks in a number of ways:

- The Manager monitors the performance of all third party providers in relation to agreed service standards on a regular basis, and any issues and concerns are dealt with promptly and reported to the Board. The Manager formally reviews the performance of all third party providers and reports to the Board on an annual basis.
- The Board monitors the performance of the Manager at every board meeting and otherwise as appropriate. The Board has the power to replace the Manager and reviews the management contract formally once a year.
- The day-to-day management of the portfolio is the responsibility of Paul Read and Paul Causer, who are Co-Heads of the Invesco Perpetual Fixed Interest Team. They are assisted by Rhys Davies, the deputy portfolio manager. Messrs Read and Causer have 20 years and 21 years' experience in fixed income markets respectively, and have been the portfolio managers of the Company since 2001. Mr Davies joined Invesco in 2002 and has been associated with the Company's portfolio for a number of years. The Board has adopted guidelines within which the portfolio managers are permitted wide discretion. Any proposed variation outside these guidelines is referred to the Board and the guidelines themselves are reviewed at every board meeting.
- The risk that the portfolio managers might be incapacitated or otherwise unavailable is mitigated by the fact that they work closely with each other and they also work within the wider Invesco Perpetual Fixed Interest team, and are supported by Mr Davies.

Regulatory

The Company is subject to various laws and regulations by virtue of its status as a Company registered under the Companies (Jersey) Law 1991, as an investment company and its listing on the London Stock Exchange. A serious breach of regulatory rules may lead to suspension from the London Stock Exchange 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 financial regulatory requirements on a daily basis. All transactions, income and expenditure are reported to the Board. The Board regularly considers all risks, the measures in place to control them and the possibility of any other risks that could arise. 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.

The Alternative Investment Fund Manager Directive was implemented in the year. This required the appointment of Invesco Fund Managers Limited as the Alternative Investment Fund Manager, which bears the main compliance obligations, as well as the appointment of a depositary.

Any changes in the Company's tax status or in taxation legislation or accounting practice could affect the value of investments held by the Company, affect the Company's ability to provide returns to shareholders or alter the post-tax returns to shareholders.

Other Risks

As a result of the Company's policy of charging any performance fee and 50% of the investment management fee and financing costs (including the cost of the repo financing) to capital, maintenance of its NAV requires that the Company's investment portfolio achieves capital growth equivalent to the total amount of such costs and that all other costs are covered by income. Any changes to the way in which the Company accounts for expenses, tax or tax relief as a result of changes to recommended

BUSINESS REVIEW continued

accounting practices, accounting standards, or tax legislation could have an adverse effect on the level of profits available for the payment of dividends.

Board Diversity

The Board has noted the recommendations of the Lord Davies Committee relating to Board diversity. The Board as a whole performs the function of a Nomination Committee and considers diversity, including the balance of skills, knowledge, diversity (including gender) and experience amongst other factors when reviewing the composition of the Board and appointing new directors, but does not consider it appropriate to establish targets or quotas in this regard. The Board comprises five male non-executive directors and their summary biographical details are set out on page 21. The Company has no employees.

Social and Environmental Matters

As an investment company with no employees, property or activities outside investment, environmental policy has limited application. The Manager considers various factors when evaluating potential investments. While an investee company's policy towards the environment and social responsibility, including with regard for human rights, is considered as part of the overall assessment of risk and suitability for the portfolio, the Manager does not make its investment decisions on environmental and social grounds alone. The Company does not have a human rights policy, although the Manager invests in accordance with the United Nations Principles for Responsible Investment.

Approved by the Board of Directors on 26 November 2014.

R&H Fund Services (Jersey) Limited
Company Secretary

INVESTMENT PORTFOLIO

AT 30 SEPTEMBER 2014

All investments are fixed interest bonds unless otherwise stated; floating rates notes are depicted by FRN.

The definitions of the Moody/Standard & Poor ratings below are set out on page 64.

Bonds and Equity Investments

ISSUER	ISSUE	RATING	AT MARKET VALUE £'000	% OF PORTFOLIO
Euro				
UniCredit International Bank	8.125% FRN Perpetual	B1/BB–	2,736	2.5
Santos Finance	8.25% FRN 22 Sep 2070	NR/BBB	2,640	2.5
Rexam	6.75% FRN 29 Jun 2067	Ba2/BB	1,965	1.8
Commerzbank	7.75% 16 Mar 2021	Ba2/BB	1,888	1.8
Achmea	6% 04 Apr 2043	NA/BBB	1,752	1.6
Origin Energy	7.875% 16 Jun 2071	Ba1/BB+	1,733	1.6
Lottomatica	8.25% FRN 03 Mar 2066	Ba2/BB	1,668	1.5
UPCB Finance	7.625% 15 Jan 2020	Ba3/BB	1,631	1.5
RWE	4.625% FRN Perpetual	Baa3/BBB–	1,590	1.5
Telecom Italia	5.25% 17 Mar 2055	Ba1/BB+	1,548	1.4
Aviva	6.875% FRN 22 May 2038	Baa1/BBB	897	
	4.7291% FRN Perpetual	Baa2/BBB	388	1.4
	6.125% FRN 05 Jul 2043	Baa1/BBB	218	
Intesa Sanpaolo	8.375% FRN Perpetual	Ba3/BB–	1,387	1.3
Telefonica Europe	7.625% Perpetual	Ba1/BB+	1,251	1.2
Vougeot Bidco	FRN 18 Jul 2020	B2/B	1,245	1.2
Lloyds Banking Group				
– LBG Capital No.2 (ECN)	6.385% 12 May 2020	Baa3/BBB–	1,112	1.1
– Lloyds Bank	6.375% Perpetual	NA/B+	129	
Volkswagen International Finance	4.625% Perpetual	Baa2/BBB+	1,014	0.9
Unitymedia Kabel	9.5% 15 Mar 2021	B3/B	880	0.9
Iberdrola International	5.75% Perpetual	Baa3/BB+	836	0.8
Abengoa	8.5% 31 Mar 2016	B2/B	833	0.8
Algeco Scotsman Global Finance	9% 15 Oct 2018	B2/NR	810	0.8
BPCE	9% FRN Perpetual	Ba2/BB+	800	0.7
Campofrio Food	8.25% 31 Oct 2016	Ba3/BB–	797	0.7
Matterhorn Mobile	FRN 15 May 2019	B1/B+	783	0.7
Galapagos	FRN 15 Jun 2021	B1/B	753	0.7
Royal Bank of Scotland	FRN 14 Jun 2022	Ba2/BB+	689	0.6
Picard	FRN 01 Aug 2019	Ba3/BB–	686	0.6
Telekom Austria	5.625% Perpetual	Ba1/BB+	665	0.6
TMF	5.599% FRN 03 Dec 2018	B1/B	585	0.6
ENEL	5% 15 Jan 2075	Ba1/BB+	575	0.5
CNP Assurances	FRN Perpetual	NA/NR	561	0.5
Constellium	4.625% 15 May 2021	Ba3/BB–	556	0.5
Solvay Finance	4.199% Perpetual	Ba1/BBB–	550	0.5
Numericable	5.625% 15 May 2024	Ba3/B+	466	0.4
Levi Strauss	7.75% 15 May 2018	Ba3/BB	463	0.4
Ono Finance II	11.125% 15 Jul 2019	Ba2/B–	420	0.4
Gategroup Finance	6.75% 01 Mar 2019	B1/BB–	399	0.4
ECO-BAT Finance	7.75% 15 Feb 2017	B2/B	394	0.4
Kerneos	FRN 01 Mar 2021	B2/B+	390	0.4
Mobile Challenger Intermediate	8.75% 15 Mar 2019	NR/B–	315	0.3
Sisal	7.25% 30 Sep 2017	B1/B	313	0.3
BNP Paribas Fortis	Cnv FRN Perpetual	Ba3/BB	299	0.3
KM Germany	8.75% 15 Dec 2020	B2/B–	203	0.2
			41,813	38.8

INVESTMENT PORTFOLIO
continued

ISSUER	ISSUE	RATING	AT MARKET VALUE £'000	% OF PORTFOLIO
Sterling				
Lloyds Banking Group				
– Lloyds Bank	7.625% 22 Apr 2025	Baa2/BBB–	2,490	3.3
– Lloyds Bank	7% Var Perpetual	NA/B+	1,054	
Enterprise Inns	6.5% 06 Dec 2018 (SNR)	NA/BB–	2,677	2.5
ENW Finance	5.875% 21 Jun 2021	NR/BB+	2,524	2.3
Electricite De France	6% Perpetual	A3/BBB+	1,376	2.3
	5.875% Perpetual	A3/BBB+	1,038	
ENEL	7.75% 10 Sep 2075	Ba1/BB+	1,570	2.2
	6.625% 15 Sep 2076	Ba1/BB+	793	
NGG Finance	5.625% FRN 18 Jun 2073	Baa3/BBB	2,293	2.1
Twinkle Pizza	6.625% 01 Aug 2021	B2/B	2,274	2.1
Arqiva Broadcast Finance	9.5% 31 Mar 2020	B3/NR	2,163	2.0
Iron Mountain	6.125% 15 Sep 2022	Ba1/B+	1,956	1.8
DFS Furniture	FRN 15 Aug 2018	B2/B	1,105	1.7
	7.625% 15 Aug 2018	B2/B	802	
Standard Chartered	5.125% 06 Jun 2034	A3/BBB+	1,835	1.7
Société Générale	8.875% FRN Perpetual	Ba2/BB+	1,687	1.6
Aviva	6.125% Perpetual	Baa1/BBB	1,556	1.4
Virgin Media Finance	8.875% 15 Oct 2019	B2/B	699	1.3
	6% 15 Apr 2021	Ba3/BB–	668	
Telefonica Europe	6.75% Perpetual	Ba1/BB+	1,143	1.1
Deutsche Bank	7.125% Perpetual	Ba3/BB	1,142	1.1
Orange	5.875% Var 29 Dec 2019	Baa3/BBB–	1,129	1.1
Southern Water (Greensands)	8.5% 15 Apr 2019	NR/BB–	1,105	1.0
Thames Water	7.75% 01 Apr 2019	B1/NR	1,084	1.0
Gala Finance	8.875% 01 Sep 2018	B2/B+	1,079	1.0
General Electric Capital	5.5% FRN 15 Sep 2066	A2/A+	1,056	1.0
Scottish Widows	5.5% 16 Jun 2023	Baa1/BBB+	830	0.8
Koninklijke KPN	6.875% FRN 14 Mar 2073	Ba2/BB	814	0.8
Jaguar Land Rover	8.25% 15 Mar 2020	Ba2/BB	807	0.7
InterGen Services	7.5% 30 Jun 2021	B1/B+	768	0.7
Wm Morrison Supermarkets	4.75% 04 Jul 2029	Baa2/NR	633	0.6
Verizon Communications	4.75% 17 Feb 2034	Baa1/BBB+	593	0.6
Pendragon	6.875% 01 May 2020	B1/B+	575	0.5
AA Bond	9.5% 31 Jul 2043	NR/BB	547	0.5
UniCredit International Bank	8.5925% FRN Perpetual	B1/BB–	546	0.5
Legal & General	6.385% FRN Perpetual	Baa2/BBB+	522	0.5
AXA	6.6666% FRN Perpetual	Baa1/BBB–	519	0.5
Premier Farnell	89.2p Convertible Preference	NA/NR	465	0.4
Odeon & UCI Finco	9% 01 Aug 2018	B3/CCC+	455	0.4
Standard Life	5.5% 04 Dec 2042	Baa2/BBB	369	0.3
Equiniti Newco 2	FRN 15 Dec 2018	B3/B	331	0.3
			47,072	43.7

ISSUER	ISSUE	RATING	AT MARKET VALUE £'000	% OF PORTFOLIO
US Dollar				
TimeWarner	4.65% 01 Jun 2044	Baa2/BBB	3,009	2.8
General Motors	Wts 10 Jul 2019	NR/NR	2,685	
	Wts 10 Jul 2016	NR/NR	225	2.7
	US Common Stock	NR/NR	18	
Vedanta Resources	6.75% 07 Jun 2016	Ba3/BB	1,290	1.2
Standard Chartered	5.7% 26 Mar 2044	A3/BBB+	1,284	1.2
Catlin Insurance	7.249% FRN Perpetual	NA/BBB+	1,270	1.2
Stora Enso	7.25% 15 Apr 2036	Ba2/BB	1,221	1.1
Société Genérale	8.75% Perpetual	Ba2/BB+	639	0.9
	7.875% FRN Perpetual	Ba2/BB+	347	
HSBC	4.25% 14 Mar 2024	A3/BBB+	401	
	5.25% 14 Mar 2044	A3/BBB+	398	0.9
	6.375% Cnv Perpetual	Baa3/NR	159	
Banco Santander	6.375% Perpetual	Ba1/NR	816	0.8
CEMEX Espana	9.25% 12 May 2020	NR/B+	739	0.7
Nara Cable Funding	8.875% 01 Dec 2018 (SNR)	Ba1/B+	649	0.6
Aperam	7.75% 01 Apr 2018	B3/B+	638	0.6
Apple	4.45% 06 May 2044	Aa1/AA+	566	0.5
CGG Veritas	7.75% 15 May 2017	B1/B+	434	0.4
BBVA	9% Perpetual	NR/NR	392	0.4
Rothschilds Continuation Finance	FRN Perpetual	NA/NR	359	0.3
Prudential	6.5% Perpetual	Baa1/A–	311	0.3
Constellium	5.75% 15 May 2024	Ba3/BB–	307	0.3
Greenko	8% 01 Aug 2019	NR/B	249	0.2
Peabody Energy	4.75% Cnv 15 Dec 2066	B2/B–	215	0.2
Altice	7.75% 15 May 2022	B3/B	125	0.1
Motors Liquidation	Units	NR/NR	66	0.1
	8.375% 15 Jul 2033	NR/NR	—	
			18,812	17.5
Total investments			107,697	100.0

TOP TEN INVESTMENTS

AT 30 SEPTEMBER 2014

ISSUER	ISSUE	2014 VALUE £'000	2014 AT MARKET % OF PORTFOLIO	2013 VALUE £'000	2013 AT MARKET % OF PORTFOLIO
Lloyds Banking Group – Lloyds Bank & LBG Capital	7.625% 22 Apr 2025	2,490	4.4	2,317	4.4
	6.385% 12 May 2020	1,112		1,289	
	7% Var Perpetual	1,054		—	
	6.375% Perpetual	129		—	
	9% 15 Dec 2019	—		1,085	
UniCredit International Bank	8.125% FRN Perpetual	2,736	3.0	2,592	2.9
	8.5925% FRN Perpetual	546		496	
Standard Chartered	5.125% 06 Jun 2034	1,835	2.9	—	—
	5.7% 26 Mar 2044	1,284		—	
Aviva	6.125% Perpetual	1,556	2.8	1,484	2.9
	6.875% FRN 22 May 2038	897		920	
	4.729% FRN Perpetual	388		417	
	6.125% FRN 05 Jul 2043	218		209	
TimeWarner	4.65% 01 Jun 2044	3,009	2.8	—	—
ENEL	7.75% 10 Sep 2075	1,570	2.7	1,440	1.4
	6.625% 15 Sep 2076	793		—	
	5% 15 Jan 2075	575		—	
General Motors	Wts 10 Jul 2019	2,685	2.7	4,140	4.1
	Wts 10 Jul 2016	225		257	
	US common stock	18		—	
Enterprise Inns	6.5% 06 Dec 2018 (SNR)	2,677	2.5	2,562	2.4
Société Genérale	8.875% FRN Perpetual	1,687	2.5	1,594	2.1
	8.75% Perpetual	639		651	
	7.875% FRN Perpetual	347		—	
Santos Finance	8.25% FRN 22 Sep 2070	2,640	2.5	2,742	2.6

BOND RATING ANALYSIS

AT 30 SEPTEMBER 2014

For the definitions of these ratings see the Glossary of Terms on page 64.

RATING	2014 % OF PORTFOLIO	2014 CUMULATIVE TOTAL %	2013 % OF PORTFOLIO	2013 CUMULATIVE TOTAL %
Investment Grade:				
AAA	—	—	2.4	2.4
AA+	0.5	0.5	—	2.4
A+	1.0	1.5	1.7	4.1
A	—	1.5	1.6	5.7
A–	0.3	1.8	0.8	6.5
AA–	—	1.8	1.0	7.5
BBB+	10.0	11.8	3.6	11.1
BBB	12.2	24.0	12.0	23.1
BBB–	6.9	30.9	9.1	32.2
Non-Investment Grade:				
BB+	15.5	46.4	12.2	44.4
BB	12.8	59.2	13.7	58.1
BB–	10.9	70.1	8.9	67.0
B+	9.0	79.1	9.3	76.3
B	9.7	88.8	10.4	86.7
B–	1.1	89.9	2.4	89.1
CCC+	0.4	90.3	0.2	89.3
NR (including equities, warrants and credit default swaps)	9.7	100.0	10.7	100.0
	100.0		100.0	

DIRECTORS

Donald Adamson *(Jersey resident) (Chairman)*

Mr. Adamson was appointed a Director of the Company on 10 September 1999. He has over 30 years' experience of fund management, corporate finance and private equity in Edinburgh, London and Jersey. He serves as director or chairman of a number of listed and privately-held investment companies. He was awarded an M.A. in Economics and History from University College, Oxford and carried out post-graduate research at Nuffield College, Oxford. He is member of the Offshore Committee of the Association of Investment Companies.

Peter Yates *(Jersey resident) (Chairman of the Audit and Management Engagement Committees)*

Mr. Yates was appointed a Director of the Company on 1 August 2012. Mr Yates, an experienced Chartered Accountant and former President of the Jersey Society of Chartered and Certified Accountants, was previously a partner of PricewaterhouseCoopers working in the United Kingdom and Jersey for over 31 years.

Michael Lombardi *(Jersey resident)*

Mr. Lombardi was appointed a Director of the Company on 1 August 2012. After training with Dundas & Wilson in Edinburgh, Michael qualified as a lawyer in England, Hong Kong, Bermuda and Jersey. He is a senior corporate partner of the Jersey Law firm Ogier and has specialised in investment fund and structured finance transactions for over 25 years.

All Directors are independent and non-executive.

Gordon Neilly *(UK resident)*

Mr. Neilly was appointed a Director of the Company on 10 September 1999. He graduated from Edinburgh University in 1981, joined Thomson McLintock & Co and became a member of the Institute of Chartered Accountants of Scotland in 1984. He was finance director and business development director of Ivory & Sime plc from 1990 to 1997. He was a founding partner and chief executive of Intelli Corporate Finance, which was acquired by Canaccord Genuity in 2009. He moved to Cantor Fitzgerald Europe in 2012 as Head of Corporate Finance and is currently Co-Chief Executive Officer. He is also a non-executive director of Personal Assets Trust plc.

Clive Spears *(Jersey resident)*

Mr. Spears was appointed a Director of the Company on 18 May 2011. He has over 32 years' experience with the Royal Bank of Scotland Group of which the last 18 years were spent in Jersey until his retirement in 2003. His experience has spanned corporate finance, treasury products, global custody, trust and fund administration, internal audit and compliance. Since his retirement he has acted as a consultant and non-executive director both in the investment management industry and local commerce, holding a wide range of local board appointments. He is an Associate Member of the Institute of Financial Services, a member of the Institute of Directors and a member of the Chartered Institute for Securities and Investment and on the Board of Jersey Financial Services Limited. He is regulated by the Jersey Financial Services Commission as a Class G licence holder.

THE COMPANY'S GOVERNANCE FRAMEWORK

Responsibility for good governance lies with the Board. The governance framework of the Company reflects the fact that as an Investment Company it has no employees and outsources investment management to the Manager and administration to other external service providers, such as R&H Fund Services (Jersey) Limited.

The Board

Five non-executive directors (NEDs)

Chairman Donald Adamson

Key objectives:

– to set strategy, values and standards;
– to provide entrepreneurial leadership within a framework of prudent effective controls which enable risk to be assessed and managed; and
– to constructively challenge and scrutinise performance of all outsourced activities.

Nominations Committee Function

The Board as a whole performs this function

Key objectives:

– to review regularly the Board's structure and composition; and
– to make recommendations for any new appointments.

Management Engagement Committee

All NEDs

Chairman Peter Yates

Key objective:

– to review the performance of the Manager.

Audit Committee

All NEDs

Chairman Peter Yates

Key objectives:

– to oversee financial reporting and the control environment; and
– to review other external service providers.

Remuneration Committee Function

The Board as a whole performs this function

Key objective:

– to set the remuneration policy of the Company.

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2014

Corporate Governance Statement

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.

The Board of Invesco Perpetual Enhanced Income Limited has considered the principles and recommendations of the 2013 AIC Code of Corporate Governance (the 'AIC Code') by reference to the AIC Corporate Governance Guide for Investment Companies (the 'AIC Guide'). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the 2012 UK Corporate Governance Code (the 'UK Code'), as well as setting out additional principles and recommendations on the issues that are of specific relevance to Invesco Perpetual Enhanced Income Limited.

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

The AIC Code is available from the Association of Investment Companies (www.theaic.co.uk). The UK Code is available from the Financial Reporting Council website (www.frc.org.uk).

The Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Code, except as detailed in the Report and as set out below.

The UK Code includes provisions relating to:

- the role of the chief executive;
- 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 UK Code, the Board considers these provisions are not relevant to the position of Invesco Perpetual Enhanced Income Limited, being an externally managed investment company with no executive employees and, in relation to the last one, in view of the Manager and R&H Fund Services (Jersey) Limited having internal audit functions. 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.

The composition and operation of the Board and its committees are summarised on page 22.

The Company's approach to internal control and risk management is summarised on page 28.

The contractual arrangements with and assessment of the Manager are summarised on pages 32 and 33.

The Company's capital structure and voting rights are summarised on page 31.

Details of the most substantial shareholders of the Company are listed on page 31.

The rules concerning the appointment and replacement of directors are contained in the Company's Articles of Association and are discussed on page 25 and 26. There are no agreements between the Company and its directors concerning compensation for loss of office.

Powers to buy back the Company's shares, which are sought annually, and all amendments to the Company's Articles of Association require a special resolution to be passed by shareholders.

By order of the Board

R&H Fund Services (Jersey) Limited
Company Secretary

26 November 2014

Introduction

The Directors present their Report for the year ended 30 September 2014.

Corporate Governance

The Corporate Governance Statement on page 23 is included in this Directors' Report by reference.

Business and Status

The Company was incorporated and registered with limited liability in Jersey (number 75059) on 10 September 1999 under the Companies (Jersey) Law 1991. The Company is a closed-ended investment company and its ordinary shares are listed on the London Stock Exchange.

Invesco Fund Managers Limited (IFML) is the Manager of the Company, providing investment management services. R&H Fund Services (Jersey) Limited is the corporate company secretary and provides company secretarial and general administrative services.

Life of the Company

At the Company's Annual General Meeting (AGM) on 30 January 2014, shareholders approved the continuation of the Company as a closed-ended investment company. The Articles require an ordinary resolution to approve the continuation of the Company as a closed-ended investment company at every fifth subsequent AGM and the next occasion will be at the AGM in 2019.

The Board

The Board consists of five non-executive Directors, all of whom are considered wholly independent of the Company's Manager and advisers.

The Board considers that the independence of Donald Adamson and Gordon Neilly, who have served on the Board for over nine years, is not compromised by their length of service but, to the contrary, is strengthened by their experience.

Chairman

The Chairman of the Company is Donald Adamson, an independent non-executive Director who has no conflicting relationships. He has been a member of the Board since 1999 and was the audit committee chairman up to 30 September 2013, when he was appointed as Chairman of the Board.

Senior Independent Director

All Directors are equally responsible under the law for the proper conduct of the Company's affairs. The Directors are also responsible for ensuring that their policies and operations are in the interests of the Company's shareholders and that the interests of the creditors and suppliers to the Company are properly considered. In view of this, the Board does not consider it appropriate to identify a senior independent director as recommended by the AIC Code. All the Directors are available to shareholders if they have concerns which contact through the normal channels of Chairman, Manager or company secretary have failed to resolve, or for which such contact is inappropriate.

Board Balance

The Directors have a range of business, financial and asset management skills and experience relevant to the direction and control of the Company. Brief biographical details of members of the Board are shown on page 21.

Board Responsibilities

Directors have a duty to promote the success of the Company taking into consideration the likely consequences of any decision in the long-term; 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 to maintain a reputation for high standards of business conduct; and the need to act fairly as between shareholders of the Company. The Directors are equally responsible 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 interests of all of the Company's shareholders and that the interests of creditors and suppliers to the Company are properly disclosed.

The Board is committed to the prevention of corruption in the conduct of the Company's affairs and, taking account of the nature of the Company's business and operations, has put in place processes that the Board considers adequate to prevent persons associated with it from engaging in bribery.

A formal schedule of matters reserved for the Board detailing the responsibilities of the Board has been established. The main responsibilities include: setting the Company's objectives, policies 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 borrowings; and controlling risks. The schedule of matters reserved for 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.

The Board as a whole undertakes the responsibilities which would otherwise be assumed by a nominations committee and this is reported on under the 'Appointments, Re-election, Tenure and Nominations of Directors' section below. Likewise, the Board as a whole operates as a 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. The remuneration of Directors is reviewed periodically and reported on in more detail in the Directors' remuneration section on pages 29 and 30.

Supply of Information

To enable the members of the Board to fulfil their roles, the Manager and company secretary ensure that all Directors have timely access to all relevant management, financial and regulatory information to enable informed decisions to be made.

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

The Board meets regularly, at least four times each year, and additional meetings are arranged as necessary. Regular contact is maintained by the Manager and company secretary with the Board between formal meetings. Board meetings follow a formal agenda, which includes a review of the investment portfolio with a report from the Manager on the current investment position and outlook; strategic direction; performance against stock market indices; asset allocation; cash management; gearing policy; revenue forecasts for the financial year; marketing and investor relations; corporate governance; industry compliance and regulatory matters; and other issues.

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 £10,000, having first consulted the Chairman.

Appointment, Re-election, Tenure and the Nomination of Directors

As permitted by the AIC Code, there is no separate nomination committee as the Board is considered too small to require one. The Directors are therefore responsible for reviewing the size and structure of the Board, and ensuring an appropriate balance of skills, experience, independence and knowledge of the Company. The Board has due regard for the benefits of diversity (including gender) in its members and seeks to ensure that its composition is sufficient for the effective direction and control of the Company. The Board has not set any measurable objectives in respect of this policy.

The Articles of Association require that each Director shall retire and be subject to election at the first AGM after appointment and re-election at least every three years thereafter. Clive Spears was re-elected at the Company's AGM in 2012 and will therefore stand for re-election in 2015. Peter Yates and Michael Lombardi will be standing for re-election at the 2016 AGM. Having served on the Board for over nine years, Donald Adamson and Gordon Neilly stand for re-election annually.

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 on the Manager's website, at the registered office of the Company and will be available at the AGM.

DIRECTORS' REPORT
continued

Board, Committee and Directors' Performance Evaluation

The Directors recognise the importance of the AIC Code in terms of evaluating the performance of the Board as a whole, its respective Committees and individual Directors. During the year, the performance of the Board, Committees of the Board and individual Directors was assessed in terms of:

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

The Directors concluded that the performance evaluation process had proved successful with the Board, the Committees of the Board and the individual Directors scoring well in all areas. The Board and the Committees of the Board continued to be effective and the individual Directors continued to demonstrate commitment to their respective roles and responsibilities.

Attendance at Board and Committee Meetings

The following table sets out the attendance of individual Directors. Directors are considered to have a good attendance record at Board and Committee meetings.

	BOARD MEETING	AUDIT COMMITTEE	MANAGEMENT ENGAGEMENT COMMITTEE
NUMBER OF MEETINGS	5	2	1
Meetings Attended			
Donald Adamson	5	2	1
Michael Lombardi	5	2	1
Gordon Neilly	3[1]	2	—[1]
Clive Spears	5	2	1
Peter Yates	5	2	1

[1] Gordon Neilly was unable to attend for medical reasons.

Apart from the Board, Audit and Management Engagement Committee meetings detailed above, there were a number of meetings held by a Committee of the Board to deal with ad hoc items.

Audit Committee

The Audit Committee reviews and reports to the Board on the Company's financial reporting, risk management and internal control systems and the independence and effectiveness of the auditor. All directors are members of the audit committee and the Chairman is Peter Yates. Committee members consider that collectively they are appropriately experienced to fulfil the role required. A separate risk committee has not been established.

The Audit Committee Terms of Reference are available for inspection at AGMs and can be inspected at the registered office of the Company or on the Manager's website at www.invescoperpetual.co.uk/investmenttrusts.

The terms of reference clearly define the objectives, authority and responsibilities of the Audit Committee and are reviewed on an annual basis, the last review being in November 2014. The key objectives of the Committee are to review and challenge, where necessary, the financial reporting process, the system of internal control and management of financial risks, the external and internal audit processes and the Company's process for monitoring compliance with laws and regulations.

Audit Committee Responsibilities include:

- evaluation of the effectiveness of the internal controls and risk management systems, including reports received on the operational controls of the Company's service providers and the Manager's whistleblowing arrangements;
- evaluation of reports received from the auditor with respect to the annual financial report and reports received from the Manager's internal audit and compliance departments;

– reviewing the annual and half-yearly financial reports and announcements of the Company and ensuring compliance with relevant statutory and listing requirements;
– reporting to the Board on the appropriateness of the accounting policies and practices including critical accounting policies, any judgements and any significant issues arising during or at the year end;
– advising the Board on whether the Committee believes the annual financial report taken as a whole, is fair, balanced and understandable and provides the necessary information for shareholders to assess the Company's performance, business model and strategy;
– management of the relationship with the external auditor, including their appointment, and the scope, effectiveness, independence and objectivity of their audit; and
– oversight of the performance of the Company's third party providers.

The Committee meets at least twice a year to review the internal financial and non-financial controls, to approve the contents of the half-yearly and annual financial reports to shareholders and to review accounting policies. Representatives of the Manager's Internal Audit and Compliance Departments attend the Committee meetings at which the annual and half-yearly financial reports are reviewed. Likewise, representatives of Deloitte LLP, the Company's auditor, attend the Committee meeting at which the draft annual financial report is reviewed and can speak to Committee members without the presence of representatives of the Manager. The audit programme and timetable are drawn up and agreed with the Company's auditor in advance of the financial year end. Items for audit focus are discussed, agreed and given particular attention during the audit process. The auditor reports to the Committee on these items, among other matters. This report is considered by the Committee and discussed with the auditor and the Manager prior to approval and signature of the annual financial report.

Accounting Matters and Significant Areas of Judgement
For the year end, the accounting matters that were subject to specific consideration by the Committee and consultation with the auditor where necessary where as follows:

SIGNIFICANT AREA	HOW ADDRESSED
Existence and ownership of the investments, cash and repo financing positions	All investment and cash assets are regularly reconciled to custodian records by the Manager, as are positions held under repo financing which are reconciled to repo counterparties.
Accuracy of the portfolio valuation.	Actively traded listed investments are valued using evaluated prices provided by third party pricing vendors. Details are shown in note 19 on page 56.
Correct calculation of the performance fee.	The year end performance fee calculation is prepared and reviewed by the Manager and reviewed in depth by the Committee with reference to the investment management agreement.
The allocation of management fees and finance costs between revenue and capital.	The allocation is reviewed by the Committee annually taking into account the long-term split of returns from the portfolio, both historical and projected; the objective of the Company; and yields.

All the above were satisfactorily addressed through consideration of reports provided by, and discussed with, the Manager and the auditor. The allocation of management fees and finance costs was subjective and involved judgement by the Board. The Committee has also received a satisfactory report on the Manager's internal operations from the Manager's Compliance and Internal Audit Officers. As explained elsewhere in this annual financial report, a depositary was appointed on 22 July 2014. The Committee thus received and reviewed a report from the depositary at its year end meeting. This report was satisfactory and covered both the depositary's monitoring in the period since their appointment, including stock, cash, cashflow, net asset value calculations and investment restrictions, and the year end position.

As a result, and following a thorough review process, the Audit Committee advised the Board that the 2014 annual financial report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

The Chairman of the Audit Committee will be present at the AGM to deal with questions relating to the financial statements.

Auditor

The Committee assessed the effectiveness of the external audit process through discussions with the Manager and the auditor and consideration of review points raised.

Deloitte LLP was appointed the auditor of the Company for the first time for the year ended 30 September 2007, the year in which the last tender was undertaken. The audit partner has been rotated in compliance with prevailing audit guidance and the current audit partner is in his third year for the Company. The Audit Committee has satisfied itself as to the auditor's effectiveness, objectivity, independence and the competitiveness of its fees before recommending reappointment each year. Auditor rotation will be reviewed in accordance with changes to the UK Code and AIC Code including the provision for FTSE 350 companies to put the external audit contract out to tender at least every ten years.

It is the Company's policy normally not to seek substantial non-audit services from its auditor. During the year, the auditor did not provide any non-audit services to the Company. Prior to any engagement for non-audit services, the Audit Committee would consider whether the skills and experience of the auditor make them a suitable supplier of such services and ensure that there is no threat to objectivity and independence in the conduct of the audit as a result.

The Audit Committee has considered the independence of the auditor and the objectivity of the audit process and is satisfied that Deloitte LLP has fulfilled its obligations to shareholders as independent auditor to the Company.

A resolution proposing the reappointment of Deloitte LLP as the Company's auditor for the year to 30 September 2015 and authorising the Directors to determine their remuneration will be put to the shareholders at the forthcoming AGM.

Audit Information

The Directors confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken steps that he or she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Internal Controls and Risk Management

The Company's risk assessment focus and the way in which significant risks are managed is a key area of focus for the Committee. Work here was driven by the Committee's assessment of the risks arising in the Company's operations and identification of the controls exercised by the Board and its delegates, the Manager and other service providers. These are recorded in the Company's risk matrix which continues to serve as an effective tool to highlight and monitor the principal risks, details of which are provided in the Strategic Report. The Board also received and considered, together with representatives of the Manager, reports in relation to the operational controls of the investment manager, accounting administrator, custodian and registrar. These reviews identified no issues of significance.

Internal Audit

Due to the nature of the Company, being an externally managed investment company with no executive employees, and in view of the Manager having an internal audit function the Company does not have its own internal audit function.

Whistleblowing Arrangements

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

Going Concern

The financial statements have been prepared on a going concern basis. The Directors consider that this 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 considering this, the Directors took into account the Company's investment objective (see page 9), risk management policies and capital management policies (see note 18 to the financial statements), the diversified portfolio, the liquidity of the securities which can be used to meet short-term funding commitments, and the ability of the Company to meet all of its liabilities, including its repo financing, and ongoing expenses from its assets.

Directors

Directors' Disclosable Interests

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

	31 OCTOBER 2014	30 SEPTEMBER 2014	30 SEPTEMBER 2013
Ordinary Shares			
Donald Adamson	648,476	637,773	595,973
Michael Lombardi	100,000	100,000	100,000
Gordon Neilly	109,999	109,999	109,999
Clive Spears	—	—	—
Peter Yates (Chairman of the Audit Committee)	100,000	100,000	100,000

Save as aforesaid, no Director had any interest, beneficial or otherwise, in the shares of the Company during the year. No connected person interests have been notified.

Directors hold shares in the Company at their discretion. Share ownership is encouraged, but no guidelines have been set.

Directors' Remuneration

Remuneration Responsibilities

The Board has resolved that a remuneration committee is not appropriate for a company of this size and nature. Remuneration is therefore regarded as part of the Board's responsibilities to be addressed regularly. All Directors are non-executive and all participate in meetings of the Board at which Directors' remuneration is considered.

Directors' Remuneration Policy

The Board's policy is that the remuneration of Directors should be fair and reasonable – including in relation to that of other comparable investment trust companies; be sufficient to retain and motivate appointees; ensure that candidates of a high calibre are recruited to the Board; and should properly reflect time incurred and responsibility undertaken. It is intended that this policy will continue for the year ending 30 September 2015 and subsequent years.

Fees for the Directors are determined by the Board within the limits stated in the Company's Articles of Association. The maximum currently dictated by the Company's Articles of Association is £200,000 in aggregate per annum. Directors do not have service contracts. Directors are appointed under letters of appointment, copies of which are available for inspection at the registered office of the Company. Directors are entitled to be reimbursed for any reasonable expenses properly incurred by them in connection with the performance of their duties and attendance at board and general meetings and committees. Directors are not eligible for bonuses, pension benefits, share options or other incentives or benefits. There are no agreements between the Company and its Directors concerning compensation for loss of office.

The same fee rates will apply to both current and any new appointments.

The Company has no employees and consequently has no policy on the remuneration of employees. The Board will consider, where raised, shareholders' views on Directors' remuneration.

Directors' Fee Rates

Directors' fees are as follows:

ROLE	1 OCT 2010 TO 31 DEC 2013 (P.A.)	FEES FROM 1 JAN 2014 (P.A.)
Chairman	£22,500	£30,000
Audit Committee Chairman	£19,500	£25,000
Other Directors	£17,500	£21,500

Annual Statement and Report on Directors' Remuneration

For the year to 30 September 2014, the Directors were paid the fee rates as shown above. No additional discretionary payments were made in the year, nor in the previous year.

Directors' Remuneration for the Year

The Directors who served during the year received the following total remuneration, all of which were in the form of fees:

	2014 £	2013 £
Donald Adamson (Chairman)	28,125	22,500
Michael Lombardi	20,500	17,500
Gordon Neilly	20,500	17,500
Clive Spears	20,500	17,500
Peter Yates (Chairman of the Audit Committee)	23,625	19,500
Total	113,250	94,500

Conflicts of Interest

A Director must avoid a situation where he has, or can have a direct or indirect interest that conflicts, or has the potential to conflict, with the Company's interests. The Articles of Association of the Company give the Directors authority to authorise potential conflicts of interest and there are safeguards in place which will apply when Directors decide whether to do so. First, only Directors who have no interest in the matter being considered are 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 can impose limits or conditions when giving authorisation if they think this is appropriate.

The Directors have declared any potential conflicts of interest to the Company. Any potential conflicts of interest are entered into the Company's register of potential conflicts, which is reviewed regularly by the Board. The register of potential conflicts of interest is kept at the registered office of the Company. The Directors will advise the company secretary as soon as they become aware of any potential conflict of interest.

Directors' and Officers' Liability Insurance

The Company maintains a Directors' and Officers' Liability Insurance policy at a level which is considered appropriate for the business.

Stewardship

The Board considers that the Company has a responsibility as an investor towards ensuring that high standards of Corporate Governance are maintained in the companies in which it invests. To achieve this, the Board does not seek to intervene in daily management decisions, but aims to support high standards of governance and, where necessary, will take the initiative to ensure 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 on an informed and independent basis.

The Company's stewardship functions have been delegated to the Manager. The Manager has adopted a clear and considered policy towards its responsibility as a shareholder on behalf of the Company. As part of this policy, the Manager takes steps to satisfy itself about the extent to which the companies in which it invests look after shareholders' value and comply with local recommendations and practices, such as the UK Corporate Governance Code. A copy of the Manager's Policy on Corporate Governance and Stewardship can be found at *www.invescoperpetual.co.uk*

Greenhouse Gas Emissions

The Company has no employees or property, it does not combust any fuel or operate any facility. The Company does not purchase electricity, heat, steam or cooling for its own use. Accordingly, the quantifiable amount of carbon dioxide equivalent produced by the Company annually is zero tonnes. All services are outsourced on a fee basis that is independent of any energy expended on its behalf and it is not practical, or required, for the Company to attempt to quantify emissions in respect of such proxy energy use.

Share Capital

Under the Articles of Association, shares may be issued with such preferred, deferred or other special rights, or such restrictions, whether in regard to dividends, return of capital, voting or otherwise as the Company may by special resolution determine.

The Company may, by special resolution, alter its share capital in any manner permitted by the Companies (Jersey) Law 1991 (the 'Law'). Subject to the Law, the Company may also purchase, or agree to purchase in the future, any shares of any class (including redeemable shares) in its own capital in any way.

Ordinary Shares

- The Company's capital structure consisted of 112,367,526 ordinary shares at the year end (2013: 111,292,526 shares). During the year 1,075,000 ordinary shares were issued at an average share price of 75.37p per share. Since the year end, a further 1,004,767 ordinary shares were issued at an average price of 76.08p per share.
- At a general meeting of the Company every shareholder has one vote on a show of hands and on a poll one vote for each ordinary 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.
- Details of the substantial shareholders in the Company are shown below.
- The Board's current powers to buy back shares are stated above and proposals for their renewal are disclosed on page 34. No ordinary shares were bought back during the year.
- There are no restrictions concerning the transfer of securities in the Company; no special rights with regard to control attached to securities; no agreements between holders of securities regarding their transfer known to the Company; and no agreements which the Company is party to that might affect its control following a successful takeover bid.

Substantial Shareholders

The Company has been notified of the following holdings of 3% and over of the Company's share capital carrying unrestricted voting rights:

	AS AT 31 OCTOBER 2014		AS AT 30 SEPTEMBER 2014		AS AT 30 SEPTEMBER 2013	
	HOLDING	%	HOLDING	%	HOLDING	%
Invesco Perpetual	27,823,365	24.7	27,823,365	24.8	33,306,365	29.9
Hargreaves Lansdown, Stockbrokers	9,035,648	8.0	9,019,938	8.0	4,644,191	4.2
Alliance Trust Savings	4,416,672	3.9	4,345,534	3.9	2,354,988	2.1
GAM	4,225,388	3.8	4,225,388	3.8	4,025,388	3.6
Barclays Stockbrokers	3,973,222	3.5	4,032,747	3.6	3,544,726	3.2
Brewin Dolphin, Stockbrokers	3,915,947	3.5	3,935,376	3.5	3,399,723	3.1
Transact	3,660,262	3.3	3,664,411	3.3	4,439,247	4.0

Shareholder Relations

Shareholder relations are given a high priority by the Board, Manager and the Company Secretary. The prime medium by which the Company communicates with its shareholders is through the annual and half-yearly financial reports, which aim to provide shareholders with a full understanding of the Company's activities and results. The information is supplemented by the daily publication of the net asset value of the Company's ordinary shares; monthly and daily factsheets and information on the Manager's website. A presentation is made by the Manager following the business of the AGM each year. Shareholders have the opportunity to address questions to the Chairman and the Chairmen of the Committees of the Board at the AGM. All shareholders are encouraged to attend the AGM.

There is regular dialogue between the Manager and individual major shareholders to discuss aspects of investment performance, governance and strategy and to listen to shareholder views in order to help to develop a balanced understanding of their issues and concerns. General presentations to both institutional shareholders and analysts follow the publication of the annual financial results. All meetings between the Manager and institutional shareholders are reported to the Board. There is an opportunity for individual shareholders to question the Chairman of the Board and the Chairman of the Audit and Management Engagement Committees, at the AGM.

It is the intention of the Board that the annual financial reports are issued to shareholders so as to provide 20 working days' notice of the AGM. Shareholders who wish to lodge questions in advance of the AGM are invited to do so, either on the reverse of the proxy card or otherwise in writing to the company secretary at the address detailed on page 62. The Company responds to letters from individual shareholders on a range of issues.

Shareholders can also visit the Manager's website at *www.invescoperpetual.co.uk/investmenttrusts* in order to contact the Company's Directors or Manager and to access copies of annual and half-yearly financial reports, shareholder circulars, stock exchange announcements, factsheets and the Company's share price. Shareholders are also able to access copies of the schedule of matters reserved for the Board; terms of reference for Board Committees; and, following any shareholder meetings, proxy voting results via the website.

The Manager

Investment Management Agreement

Invesco Fund Managers Limited was appointed Manager under an agreement dated 22 July 2014. The Directors have delegated to the Manager responsibility for the day-to-day investment management activities of the Company.

Fees for the year ended 30 September 2014

The management fee rate is 1.0% per annum of net assets, payable quarterly. The management fee for the year is £810,000 (2013: £794,000). In addition, a performance related fee is payable at the end of the Company's financial year if the Company's 'Total Return' in a year exceeds the 'Hurdle Return' for the year. The Total Return is calculated as the change in NAV per share for the year multiplied by the time-weighted number of ordinary shares in issue during that period plus the aggregate of dividends declared in respect of the year. Any performance fee payable is equal to 20% of the amount by which the Total Return (including any underperformance component) exceeds the Hurdle Return. The Hurdle Return is the sterling LIBOR plus 1% per annum plus any underperformance in previous years. The agreement is terminable by one year's written notice by the Company or three months' notice if Paul Causer and/or Paul Read cease to be involved in the management of the Company's investment portfolio.

As a result of significant outperformance, a performance fee of £1,340,000 arose for the year (2013: £1,072,000). For this year only, and as noted in the Chairman's Statement, the Manager has agreed that 30% of the 2014 performance fee will be invested in shares in the Company for a minimum of one year.

Fees from 1 October 2014

The Directors have agreed with the Manager changes to the fees payable under the Investment Management Agreement, such changes to take effect from 1 October 2014.

The base management fee (currently 1% per annum of shareholders' funds) will be 1% on the first £80 million of shareholders' funds; 0.7% on the next £70 million; and 0.6% on any excess of shareholders' funds over £150 million.

Similarly the performance fee, currently payable at a rate of 20% of outperformance over a hurdle of LIBOR +1% will be stepped, reducing to 10% of outperformance in respect of shareholders' funds in excess of £80 million. Any performance fee will also be subject to the following constraints: the performance fee payable in respect of any year will not exceed the aggregate base management fee paid in that year; the performance fee will only be payable if total returns exceed 7% for the year in question and a NAV high watermark is surpassed. For each year in respect of which a performance fee is earned, 30% of the fee will be deferred, and only be payable subject to the Company achieving positive total returns within the next three accounting periods.

The Manager's Responsibilities

The Directors have delegated to the Manager the responsibility for the day-to-day investment management activities of the Company, for seeking and evaluating investment opportunities and for analysing the accounts of the 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 over the investment portfolio. The Manager also advises on borrowings.

Assessment of the Manager

The Management Engagement Committee comprises the entire Board of Directors. The Committee meets at least annually, specifically to consider the ongoing investment management, secretarial and administrative requirements of the Company. The ongoing requirements of the Company and services received are assessed with reference to key performance indicators as set out on pages 10 and 11.

Performance is reviewed by reference to the 3 month LIBOR rate. 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, and taking into account the performance of the portfolio, the other services provided by the Manager, and the risk and governance environment in which the Company operates, the Board believes that the continuing appointment of Invesco Fund Managers Limited remains in the best interests of the Company and its shareholders.

The Management Engagement Committee

The Board is considered small for the purposes of the AIC Code and all Directors are members of the Management Engagement Committee under the Chairmanship of Peter Yates. The Management Engagement Committee has written terms of reference, which clearly define its responsibilities and duties. They will be available for inspection at the AGM and can be inspected on the Manager's website and at the registered office of the Company. The Committee meets annually to review the investment management agreement with the Company's Manager and to review the services provided by the Manager.

A statement of Invesco Fund Managers Limited's responsibilities as Manager of the Company and the assessment of the Manager by the Management Engagement Committee can be found above.

Alternative Investment Fund Manager (AIFM)

Invesco Fund Managers Limited (IFML) was authorised by the FCA as an AIFM and appointed by the Company as the Company's Manager, with effect from 22 July 2014. IFML is an associated company of Invesco Asset Management Limited (IAML), the previous Manager, and IAML continues to manage the Company's investments under delegated authority from IFML.

Requirements for compliance with the Alternative Investment Fund Managers Directive in the UK are set out in the FCA Investment Funds sourcebook. Rule FUND 3.2.2 in this sourcebook requires certain information to be provided to prospective investors. This information can be found in the Company's section of the Manager's website (www.invescoperpetual.co.uk/investmenttrusts) in a downloadable document entitled AIFMD Investor Information. There have been no material changes to this information since it was first made available on the website.

IFML's full remuneration policy is available at the request of investors. Its purpose is to ensure that the remuneration of IFML's employees is consistent with and promotes sound and effective risk management and does not encourage risk-taking which is inconsistent with the risk profiles, rules or instruments of incorporation of itself and the AIFs it manages.

The overriding remuneration philosophy of Invesco is set by the Group's Compensation Committee (the 'Committee') whose charter is available at: www.invesco.com/portal/site/global/CompensationCommittee.

The Committee, or delegates thereof, oversees all incentive remuneration arrangements within the Invesco Ltd Group. The IFML Board has adopted this remuneration policy which is set in line with the remuneration philosophy of Invesco and is designed to ensure compliance with FCA requirements as established under remuneration code SYSC 19B.

As part of the Committee's oversight of compensation, the Committee annually approves an overall group-wide incentive pool within established guidelines that is aligned with Invesco's financial and strategic results. The pool is comprised of cash and deferred compensation (consisting of annual fund or equity deferrals and long-term equity awards that vest pro rata over a multi-year period). The Committee annually sets parameters, used consistently for many years, to guide the end-of-year decision-making process regarding incentive pool sizes.

The Committee makes its compensation determinations, including the determination of the size of the equity and cash pools, in its discretion, without formulaically tying its determinations to specific performance targets, formulas or weightings. The achievement of any particular goal or objective does not automatically result in any particular level of compensation. The Committee believes that a flexible approach in aligning management, client and shareholder interests, which takes into account qualitative judgments tied to the Invesco Group's long-term strategy, is more effective than purely formulaic criteria.

IFML has not yet been authorised as an AIFM for a full performance period and, pursuant to the FCA's Finalised Guidance, quantitative AIFM remuneration disclosures are not included in this report as the available partial-year information would not be representative. IFML will disclose quantitative AIFM remuneration data for the first full performance year available, which will be the year ending 31 December 2015.

The Alternative Investment Fund Managers Directive requires the AIFM to set limits for, and to monitor 'gross leverage' and 'commitment leverage' (see glossary) for each AIF it manages. The limits the Manager has set for the Company are 350% and 300% respectively. The leverage values calculated for the Company at the year end were 206% and 185% respectively.

The Company Secretary

The Board has direct access to the advice and services of the Company Secretary, R&H Fund Services (Jersey) Limited. The Company Secretary is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with, as well as attending on Directors at Board and shareholder meetings. The appointment and ongoing assessment and review of the Company Secretary is a matter for the Board as a whole.

Special Business at the Annual General Meeting (AGM)

Shareholders will find starting on page 58 the notice of the forthcoming AGM of the Company to be held on Tuesday, 3 February 2015. In addition to the ordinary business of the meeting, three resolutions are proposed as special business and are summarised below.

Special Resolution 6 seeks shareholders' authority to issue shares on a non-pre-emptive basis up to 10% of the existing shares in issue at the time of the AGM. This authority will not be exercised at a price below NAV so the interests of existing shareholders are not diluted and will expire at the AGM in 2016 or at such earlier date as the authority is renewed by shareholders.

Special Resolution 7 is to renew the authority for the Company to purchase its own ordinary shares. Your Directors are seeking the authority to purchase up to 16,994,506 ordinary shares (14.99% of the Company's issued share capital as at 26 November 2014) subject to the restrictions referred to in the notice of the AGM. This authority will expire at the AGM in 2016. These powers, if approved, will allow the Company to buy back shares at a discount to NAV. Your Directors are proposing that shares bought back by the Company either be cancelled or, alternatively, be held as treasury shares with a view to their resale, if appropriate, or later cancellation. Any resale of treasury shares will only take place on terms that are in the best interests of shareholders.

Special Resolution 8 is to permit the Company to hold general meetings (other than annual general meetings) on 14 days' notice. The EU Shareholder Rights Directive increases the minimum notice period to 21 days unless certain conditions are met. The first condition is that the Company offers facilities for shareholders to vote by electronic means. The second condition is that there is an annual resolution of shareholders approving the reduction in the minimum notice period from 21 days to 14 days, hence this resolution being proposed. It is intended that the flexibility will be used only where the Board believed it is in the interests of shareholders as a whole.

Your Directors have carefully considered all the resolutions proposed in the Notice of the AGM and, in their opinion, consider them all to be in the best interests of shareholders as a whole. Your Directors therefore recommend that shareholders vote in favour of each resolution.

The AGM of the Company will be held at the offices of R&H Fund Services (Jersey) Limited on Tuesday, 3 February 2015 at 10 a.m.

R&H Fund Services (Jersey) Limited
Company Secretary

26 November 2014

STATEMENT OF DIRECTORS' RESPONSIBILITIES
in respect of the Preparation of the Annual Financial Report

The Directors are responsible for ensuring that the annual financial report is prepared in accordance with applicable laws and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs.

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

- properly select and apply accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the accounts comply with the Companies (Jersey) Law 1991. 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 Strategic Report, a Corporate Governance Statement and a Directors' Report that comply with that law and those regulations.

The Directors of the Company, each confirm to the best of their knowledge that:

- the financial statements, 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;
- 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 risks and uncertainties that it faces; and
- the annual report and accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

Donald Adamson
Chairman

Signed on behalf of the Board of Directors

26 November 2014

Electronic Publication

The annual financial report is published on *www.invescoperpetual.co.uk/investmenttrusts*. The work carried out by the Auditor does not involve consideration of the maintenance and integrity of this website and accordingly, the Auditor accepts 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 and Jersey governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

REPORT OF THE INDEPENDENT AUDITOR

To the Members of Invesco Perpetual Enhanced Income Limited

Opinion on Financial Statements of Invesco Perpetual Enhanced Income Limited

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 September 2014 and of the Company's profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been properly prepared in accordance with the Companies (Jersey) Law 1991.

The financial statements comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Balance Sheet, the Statement of Cashflows and the related notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

Going concern

We have reviewed the Directors' statement on pages 28 and 29 that the Company is a going concern. We confirm that

- we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified any material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Our assessment of risks of material misstatement

Our risk assessment process continues throughout the audit. There has been no significant change in the Company's operation, therefore the assessed risks of material misstatement described below, which are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team are the same risks as prior year. The procedures described in our response to each risk are not exhaustive and we have focused on those procedures that we consider address areas of judgement or subjectivity.

Risk	How the scope of our audit responded to the risk
Valuation of investment portfolio and recording of resultant gains or losses	
As detailed on pages 17 to 19, the portfolio of investments is made up of listed investments which are measured at fair value and fair value is determined based on market prices. Where there is no active market, illiquid investments are valued at valuations determined by the directors using appropriate valuation techniques. Valuation involves judgements around fair value determination and has a significant impact on the net assets value (NAV) which is the most significant Key Performance Indicator (KPI) of the Company.	Our procedures included assessing the prices used for valuations using independent third party sources. We also obtained trading volume information from independent third party sources to assess frequency of trade to support the valuation. We also tested the recording of gains or losses.
Ownership of investments	
Investments are held with the custodian except securities transferred under sale and repurchase (repo) financing arrangements to the repo counterparty which are registered in the name of the counterparty until these are repurchased by the Company. Investment portfolio is the single largest asset on the balance sheet and impacts the NAV of the Company.	We confirmed the holdings to independent third party confirmations provided by the Company's custodian. Positions held under repo arrangements were verified to confirmations provided by the independent repo counterparties.

Risk	How the scope of our audit responded to the risk
The calculation of performance fee	
As detailed on page 32, a performance fee is payable to the Manager and is equal to 20% of the amount by which the total return (including any underperformance component) exceeds the hurdle return. Calculation of performance fees is a manual process involving extraction of accurate data from the Company's records and external sources for number of years.	We reviewed management's calculation of the performance fee to determine whether the fee had been calculated in accordance with the terms of the investment management agreement. This included checking the accuracy of inputs used and reperforming the calculation.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 27.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit and in evaluating the results of our work.

We determined materiality for the Company to be £1.6 million (2013: £2.3 million), which was approximately 2% (2013: 3%) of the Net Asset Value of the Company. The reason for using Net Asset Value is that this is the key performance indicator for investments in the Company. We changed the percentage applied to materiality in the current year to align more closely with those of other comparable companies.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £32,000 (2013: £46,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee any significant disclosure matters that we identify when assessing the overall presentation of the financial statements. We confirmed to the Audit Committee that we had no significant misstatement and disclosure matters to report.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies (Jersey) Law 1991 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- proper accounting records have not been kept by the Company; or
- the financial statements are not in agreement with the accounting records.

We have nothing to report in respect of these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the Company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

REPORT OF THE INDEPENDENT AUDITOR
continued

Our duty to read other information in the Annual Report

Under the International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, 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 express 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. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the Company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. 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/or those further matters we have expressly agreed to report to them on in our engagement letter 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.

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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Andrew Isham, BA, FCA
for and on behalf of Deloitte LLP

Chartered Accountants and Recognized Auditor
St. Helier, Jersey, UK

26 November 2014

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 SEPTEMBER

	NOTES	2014 REVENUE £'000	2014 CAPITAL £'000	2014 TOTAL £'000	2013 REVENUE £'000	2013 CAPITAL £'000	2013 TOTAL £'000
Profit on investments at fair value	11	—	202	202	—	10,440	10,440
Exchange differences		—	915	915	—	(641)	(641)
Profit/(loss) on derivative instruments – currency hedges		—	1,714	1,714	—	(1,267)	(1,267)
Income	4	6,550	—	6,550	6,905	—	6,905
Investment management and performance fees	5	(405)	(1,745)	(2,150)	(397)	(1,469)	(1,866)
Other expenses	6	(367)	(1)	(368)	(291)	(1)	(292)
Profit before finance costs and taxation		5,778	1,085	6,863	6,217	7,062	13,279
Finance costs	7	(139)	(139)	(278)	(136)	(136)	(272)
Profit before tax		5,639	946	6,585	6,081	6,926	13,007
Taxation	8	(61)	—	(61)	(25)	—	(25)
Profit after tax		5,578	946	6,524	6,056	6,926	12,982
Return per ordinary share	9	5.0p	0.9p	5.9p	5.5p	6.2p	11.7p

The total column of this statement represents the Company's statement of comprehensive income, prepared in accordance with International Financial Reporting Standards. The profit/(loss) after tax is the total comprehensive income. The supplementary revenue and capital columns are both prepared in accordance with the Statement of Recommended Practice issued by the Association of Investment Companies. All items in the above statement derive from continuing operations. No operations were acquired or discontinued in the year.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 SEPTEMBER

	NOTES	SHARE CAPITAL £'000	SHARE PREMIUM £'000	CAPITAL RESERVE £'000	REVENUE RESERVE £'000	TOTAL £'000
At 30 September 2012		5,565	113,634	(59,239)	12,431	72,391
Total comprehensive income for the year		—	—	6,926	6,056	12,982
Dividends paid	10	—	—	—	(5,564)	(5,564)
At 30 September 2013		5,565	113,634	(52,313)	12,923	79,809
Total comprehensive income for the year		—	—	946	5,578	6,524
Shares issued		53	756	—	—	809
Dividends paid	10	—	—	—	(5,569)	(5,569)
At 30 September 2014		5,618	114,390	(51,367)	12,932	81,573

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

BALANCE SHEET

AS AT 30 SEPTEMBER

	NOTES	2014 £'000	2013 £'000
Non-current assets			
Investments held at fair value through profit or loss	11	107,697	106,230
Current assets			
Other receivables	12	2,087	2,353
Derivative financial instruments – unrealised gain	13	384	802
Cash and cash equivalents		6,441	5,482
		8,912	8,637
Current liabilities			
Other payables	14	(1,645)	(1,356)
Securities sold under agreements to repurchase		(33,391)	(33,702)
		(35,036)	(35,058)
Net current liabilities		(26,124)	(26,421)
Total net assets		81,573	79,809
Issued capital and reserves attributable to equity holders			
Share capital	15	5,618	5,565
Share premium	16	114,390	113,634
Capital reserve	16	(51,367)	(52,313)
Revenue reserve	16	12,932	12,923
Shareholders' funds		81,573	79,809
Net asset value per ordinary share	17	72.6p	71.7p

These financial statements were approved and authorised for issue by the Board of Directors on 26 November 2014.

Donald Adamson
Chairman

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 SEPTEMBER

	NOTES	2014 £'000	2013 £'000
Cash flow from operating activities			
Profit before tax		6,585	13,007
Taxation		(61)	(25)
Adjustments for:			
Purchases of investments		(30,680)	(36,651)
Sales of investments		29,415	32,279
		(1,265)	(4,372)
(Decrease)/increase from securities sold under agreements to repurchase		(311)	5,930
Profit on investments		(202)	(10,440)
Exchange differences		(915)	641
Net cash inflow/(outflow) from derivative instruments – currency hedges		418	(906)
Finance costs		278	272
Operating cash flows before movements in working capital		4,527	4,107
Decrease/(increase) in receivables		266	(88)
Increase in payables		276	1,082
Net cash flows from operating activities		5,069	5,101
Cash flows from financing activities			
Interest paid		(265)	(282)
Shares issued		809	—
Equity dividends paid	10	(5,569)	(5,564)
Net cash used in financing activities		(5,025)	(5,846)
Net increase/(decrease) in cash and cash equivalents		44	(745)
Exchange differences		915	(641)
Cash and cash equivalents at beginning of year		5,482	6,868
Cash and cash equivalents at end of year		6,441	5,482

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

1. Principal Activity

The Company is a closed-end investment company incorporated in Jersey and it operates under the Companies (Jersey) Law 1991. The Company was incorporated on 10 September 1999. The principal activity of the Company is investment in a diversified portfolio of high yielding corporate and government bonds and, to a lesser extent, equities and other instruments as appropriate to its Investment Policy.

2. Principal Accounting Policies

The principal accounting policies describe the Company's approach to recognising and measuring transactions during the year and the position of the Company at the year end.

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied during the current year and the preceding year, unless otherwise stated. The accounts have been prepared on a going concern basis. The disclosure on going concern on pages 28 and 29 in the Directors' Report forms part of the financial statements.

(a) Basis of Preparation

(i) *Accounting Standards Applied*

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

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

(ii) *Adoption of New and Revised Standards*

New and revised standards and interpretations that became effective during the year had no significant impact on the amounts reported in these financial statements but may impact accounting for future transactions and arrangements.

At the date of authorising these financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU).

- IFRS 9: Financial Instruments (effective for accounting periods starting on or after 1 January 2018).
- IAS 32 Financial Instruments: Presentation – Amendments to application guidance on the offsetting of financial assets and financial liabilities (effective 1 January 2014).
- Mandatory Effective Date and Transition Disclosures – Amendments to IFRS 9 and IFRS 7 (effective 1 January 2015).
- Amendments to IFRS10, IFRS 12 and IAS 27 (October 2012) – Investment Entities (effective for accounting periods starting on or after 1 January 2014).

The Directors do not expect the adoption of above standards and interpretations (or any other standards and interpretations which are in issue but not effective) will have a material impact on the financial statements of the Company in future periods.

(iii) *Critical Accounting Estimates and Judgements*

The preparation of the financial statements requires the Company to make estimations where uncertainty exists. It also requires the Company to make judgement, estimates and assumptions, in the process of applying the accounting policies. There have been no significant judgements, estimates or assumptions for the current or preceding financial year, except for the allocation of management fee and finance costs (see note2 (h)).

(b) Foreign Currency

(i) *Functional and Presentation Currency*

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

(ii) *Transactions and Balances*

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

(c) Financial Instruments

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

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

(ii) *Derecognition of Financial Assets*

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

(iii) *Derecognition of Financial Liabilities*

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

(iv) *Trade Date Accounting*

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

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

Financial assets

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

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

2. Principal Accounting Policies (continued)

(c) Financial Instruments (continued)

Fair value for investments that are actively traded in organised financial markets is determined by reference to stock exchange quoted bid prices at the balance sheet date. For investments that are not actively traded or where active stock exchange quoted bid prices are not available, fair value is determined by reference to a variety of valuation techniques including broker quotes and price modelling.

Other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using effective interest method less any impairment.

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.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or expense over the relevant period.

(d) Derivatives

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

Forward currency contracts 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 recognised as capital in the statement of comprehensive income.

Any profits and losses on the closure or revaluation of futures contracts positions are recognised as capital in the statement of comprehensive income.

(e) Cash and Cash Equivalents

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

(f) Securities Sold Under Agreements to Repurchase ('repo financing')

The Company participates in repo financing arrangements in connection with its investment portfolio. Under these arrangements, the Company sells fixed interest securities but is contractually obliged to repurchase them at a fixed price on a fixed date. Securities which are the subject of repo financing arrangements are included in investments in the balance sheet at their fair value and the associated liability is recognised at amortised cost, being the capital amounts owing under the repo financing arrangements. The difference between sale and repurchase prices for such transactions is reflected in the statement of comprehensive income over the lives of the transactions, within interest payable which is allocated equally between capital and revenue. This accounting has been adopted because the repurchase price results in a lender's return for the transferee as the Company has retained substantially all the risks and rewards of ownership of the asset.

(g) Revenue Recognition

Interest income arises from cash and cash equivalents and fixed income securities and is recognised in the statement of comprehensive income using the effective interest method. Dividend income arises from equity investments held and is recognised on the date investments are marked 'ex-dividend'. Where the Company elects to receive dividends in the form of additional shares rather than cash, the equivalent to the cash dividend is recognised as income in revenue and any excess in value of the shares received over this is recognised in capital.

(h) Expenses and Finance Costs

All expenses and finance costs are accounted for on an accruals basis and are recognised in the statement of comprehensive income. The base investment management fee and finance costs are allocated equally to capital and revenue. This is in accordance with the Board's expected long-term split of returns, in the form of capital gains and income respectively, from the investment portfolio. The performance fee is allocated wholly to capital as it arises from capital returns on the investment portfolio. All other expenses, except for custodian dealing costs, are charged through revenue in the statement of comprehensive income.

(i) Tax

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

3. Segmental Reporting

No segmental reporting is provided as the Directors are of the opinion that the Company is engaged in a single segment of business of investing in debt, and, to a significantly lesser extent equity securities.

4. Income

This note shows the income generated from the portfolio (investment assets) of the Company and income received from any other source.

	2014 £'000	2013 £'000
Income from investments		
UK bond interest	2,556	2,531
Overseas bond interest	3,956	4,342
	6,512	6,873
UK dividends	27	27
Overseas dividends	7	—
	6,546	6,900
Other income		
Deposit interest	4	5
Total income	6,550	6,905

5. Investment Management and Performance Fees

This note shows the fees paid to the Manager. These are made up of the base management fee payable per annum and a performance fee calculated annually.

	2014			2013		
	REVENUE £'000	CAPITAL £'000	TOTAL £'000	REVENUE £'000	CAPITAL £'000	TOTAL £'000
Investment management fee	405	405	810	397	397	794
Performance fee	—	1,340	1,340	—	1,072	1,072
	405	1,745	2,150	397	1,469	1,866

Details of the investment management agreement are disclosed in the Directors' Report. At the year end the management fee accrued was £187,000 (2013: £202,000). A performance fee of £1,340,000 (2013: £1,072,000) is accrued at the year end.

6. Other Expenses

The other expenses of the Company are presented below; those paid to the Directors and the auditor are separately identified.

	2014 REVENUE £'000	2014 CAPITAL £'000	2014 TOTAL £'000	2013 REVENUE £'000	2013 CAPITAL £'000	2013 TOTAL £'000
General expenses – note (i)	227	1	229	171	1	172
Directors' fees – note (ii)	113	—	113	95	—	95
Auditor's remuneration:						
– for audit of the financial statements	26	—	26	25	—	25
	367	1	368	291	1	292

(i) General expenses include amounts due to R&H Fund Services (Jersey) Limited who act as Administrator and Company Secretary to the Company under an agreement dated 8 October 1999. This agreement is terminable by not less than three months' written notice subject to earlier termination as provided for therein. The fee is calculated at the rate of £11,000 (2013: £11,000) per annum for Company Secretarial services and £23,000 (2013: £22,000) per annum for Administration Services. In addition, custodian dealing costs of £1,000 (2013: £1,000) are charged wholly to capital.

(ii) The maximum Directors' fees authorised by the Articles of Association are £200,000 per annum. As reported in 2013 annual financial report, Directors' fees were increased with effect from 1 January 2014.

7. Finance Costs

Finance costs arise on any borrowing that the Company has, with the main borrowing being in the form of repo financing (see note 2(f)).

	2014 REVENUE £'000	2014 CAPITAL £'000	2014 TOTAL £'000	2013 REVENUE £'000	2013 CAPITAL £'000	2013 TOTAL £'000
Interest due under repo financing	139	139	278	136	136	272

8. Taxation

As a Jersey investment company no tax is payable on capital gains and, as the Company principally invests in assets which do not result in a revenue tax, the only overseas tax arises on the few assets domiciled in countries with which Jersey has no double-taxation treaty, e.g. Italy and Portugal.

	2014 £'000	2013 £'000
Overseas taxation	61	25

The Company is subject to Jersey income tax at the rate of 0% (2013: 0%). The overseas tax charge consists of irrecoverable withholding tax.

9. Return per Share

Return per share is the amount of gain generated for the financial year divided by the weighted average number of ordinary shares in issue.

The basic revenue, capital and total return per ordinary share is based on each of the returns on ordinary activities after taxation and on 111,491,293 (2013: 111,292,526) ordinary shares, being the weighted average number of ordinary shares in issue throughout the year.

10. Dividends

Dividends represent the return of income less expenses to shareholders. Dividends are paid as an amount per ordinary share held.

	2014		2013	
	PENCE	£'000	PENCE	£'000
Dividends paid and recognised in the year:				
Fourth interim	1.25	1,391	1.25	1,391
First interim	1.25	1,391	1.25	1,391
Second interim	1.25	1,391	1.25	1,391
Third interim	1.25	1,396	1.25	1,391
	5.00	5,569	5.00	5,564

Set out below are the dividends that have been declared in respect of the financial years ended 30 September:

	2014		2013	
	PENCE	£'000	PENCE	£'000
Dividends in respect of the year:				
First interim	1.25	1,391	1.25	1,391
Second interim	1.25	1,391	1.25	1,391
Third interim	1.25	1,396	1.25	1,391
Fourth interim	1.25	1,405	1.25	1,391
	5.00	5,583	5.00	5,564

The fourth interim dividend for 2014 was paid on 31 October 2014 to shareholders on the register on 10 October 2014.

11. Investments Held at Fair Value Through Profit and Loss

The portfolio is made up of investments which are listed, i.e. traded on a regulated stock exchange. Gains and losses in the year are either:

- **realised, usually arising when investments sold; or**
- **unrealised, being the difference from cost on those investments still held at the year end.**

(a) Analysis of investments:

	2014 £'000	2013 £'000
Investments listed on a recognised investment exchange	107,697	106,230

11. Investments Held at Fair Value Through Profit and Loss (continued)

(b) Analysis of investment profits/(losses):

	2014			2013		
	UK LISTED £'000	OVERSEAS LISTED £'000	TOTAL £'000	UK LISTED £'000	OVERSEAS LISTED £'000	TOTAL £'000
Opening valuation	39,812	66,418	106,230	28,289	63,926	92,215
Movements in the year:						
Purchases at cost	17,803	12,877	30,680	16,218	19,636	35,854
Sales – proceeds	(11,549)	(17,866)	(29,415)	(7,192)	(25,087)	(32,279)
– net realised profit	526	1,164	1,690	504	1,395	1,899
Movement in investment holding profit/(loss) in the year	480	(1,968)	(1,488)	1,993	6,548	8,541
Closing valuation	47,072	60,625	107,697	39,812	66,418	106,230
Closing book cost	42,417	57,023	99,440	35,637	60,848	96,485
Closing investment holding profit	4,655	3,602	8,257	4,175	5,570	9,745
Closing valuation	47,072	60,625	107,697	39,812	66,418	106,230
Realised profit in the year	526	1,164	1,690	504	1,395	1,899
Movement in investment holding profit in the year	480	(1,968)	(1,488)	1,993	6,548	8,541
Total profit/(loss) in the year	1,006	(804)	202	2,497	7,943	10,440

(c) 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. Securities transferred under repo financing arrangements are registered in the name of the counterparty until these are repurchased by the Company, when these are re-registered in the name of the Company.

(d) Securities under agreements to repurchase had a market value of £44,494,000 (2013: £48,799,000).

(e) The transaction costs on investments amount to £nil on purchases and £1,000 for sales (2013: £nil on purchases and sales).

12. Other Receivables

Other receivables are amounts which are due to the Company, such as income which has been earned (accrued) but not yet received and monies due from brokers for investments sold.

	2014 £'000	2013 £'000
Prepayments and accrued income	2,087	2,353
	2,087	2,353

13. Derivative Financial Instruments

Derivative financial instruments are financial instruments that derive their value from the performance of another item, such as an asset or exchange rates. They are used to manage the risk associated with fluctuations in the value of certain assets and liabilities. In accordance with Board approved policies, the Company can use derivatives to manage its exposure to fluctuations in foreign exchange rates.

Derivative financial instruments comprise forward currency contracts.

	2014 £'000	2013 £'000
Forward currency contracts – unrealised gains	384	802

14. Other Payables

Other payables are amounts which must be paid by the Company, and include any amounts due to brokers for the purchase of investments or amounts owed to suppliers, such as the Manager and auditor.

	2014 £'000	2013 £'000
Accruals	305	284
Performance fee	1,340	1,072
	1,645	1,356

15. Share Capital

The share capital represents the total number of shares in issue, for which dividends accrue.

	2014 £'000	2013 £'000
Authorised:		
200,000,000 ordinary shares of 5p each (2013: 200,000,000 shares)	10,000	10,000
Allotted, called-up and fully paid:		
112,367,526 ordinary shares of 5p each (2013: 111,292,526 shares)	5,618	5,565

During the year 1,075,000 ordinary shares were issued at an average share price of 76.08p (75.37p net of issue costs) per share.

Subsequent to the year end 1,004,767 ordinary shares were issued at an average price of 74.56p (73.66p net of issue costs) per share.

16. Reserves

This note explains the different reserves that have arisen over the years. The aggregate of the reserves and share capital (see previous note) make up total shareholders' funds.

The share premium arises from the excess of consideration received on the issue of shares over the nominal 5p value and is non-distributable.

The capital reserve includes investment holding gains and losses, being the difference between cost and market value at the balance sheet date, as well as realised profits and losses of disposals of investments and share buy backs. It, and the revenue reserve, are distributable whenever a surplus is held.

17. Net Asset Value per Share

The Company's total net assets (total assets less total liabilities) are often termed shareholders' funds and are converted into net asset value per ordinary share by dividing by the number of shares in issue.

The net asset value per ordinary share and the net assets attributable at the year end were as follows:

	NET ASSET VALUE PER ORDINARY SHARE		NET ASSETS ATTRIBUTABLE	
	2014 PENCE	2013 PENCE	2014 £'000	2013 £'000
Ordinary shares	72.6	71.7	81,573	79,809

Net asset value per ordinary share is based on net assets at the year end and on 112,367,526 (2013: 111,292,526) ordinary shares, being the number of ordinary shares in issue at the year end.

18. Financial Instruments

Financial instruments comprise the Company's investment portfolio and derivative financial instruments (for the latter see note 13) as well as its cash, borrowings (i.e. securities sold under agreements to repurchase, otherwise known as 'repo financing'), other receivables and other payables.

The Company's financial instruments comprise its investment portfolio (as shown on pages 17 to 19), cash, securities sold under agreements to repurchase (repo financing), derivative financial instruments, other receivables and other payables that arise directly from its operations such as sales and purchases awaiting settlement and accrued income. The accounting policies in note 2 include criteria for the recognition and the basis of measurement applied for financial instruments. Note 2 also includes the basis on which income and expenses arising from financial assets and liabilities are recognised and measured.

The principal risks that an investment 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, management of borrowings and hedging of the Company as more fully described in the Directors' Report.

Investments include, but are not restricted to, corporate bonds, government bonds, preference shares, loan stocks and equities for the long-term so as to comply with 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 uses to manage these risks for the two years under review are detailed overleaf.

Market Risk

The Manager assesses the exposure to market risk when making each investment decision, and monitors the overall level of market risk on the whole of the portfolio on an ongoing basis. Risk management is an integral part of the investment management process. The Manager controls risk by ensuring that the Company's investment portfolio is appropriately diversified. In-depth and continual analysis of market and stock fundamentals give the Manager the best possible understanding of the risks associated with a particular stock.

As more fully described in the Business Review on page 14, high-yield corporate bonds are subject to a variety of risks. A majority of the Company's investments are in non-investment grade securities and so adverse changes in the financial position of an issuer of corporate bonds or in the general economy may affect both the principal and the interest.

(a) *Currency Risk*

The sterling value of the Company's assets, liabilities and income which are denominated in currencies other than sterling will be affected by movements in exchange rates.

Management of the currency risk

The Manager monitors the Company's exposure to foreign currencies on a daily basis and reports to the Board on a regular basis. The Company uses both forward currency contracts and repo financing to mitigate currency movements that would affect the investment portfolio and cash. In addition, the Company can use non-sterling credit default swaps ('CDSs') to mitigate or increase currency risk depending on whether the Company has sold or bought the CDSs. At this, and the previous year end the company had no exposure to CDSs.

Repo financing is matched to the currency of the underlying assets, which minimises currency risk on the movement of exchange rates affecting the underlying investments. Non-sterling investments that are not pledged under repo financing can be hedged using forward currency contracts.

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 30 September are shown in the table below. Where the Company's investments (which are not monetary items) are priced in a foreign currency, they have been included separately in the analysis so as to show the overall level of exposure.

	2014		2013	
	EURO £'000	US DOLLAR £'000	EURO £'000	US DOLLAR £'000
Investments at fair value through profit or loss that are monetary items (fixed and floating interest)	41,813	15,818	50,548	11,473
Cash at bank	2,387	929	1,378	1,469
Other receivables (due from brokers, dividends receivable and accrued income)	1,015	285	1,190	254
Other payables (due to brokers and accruals)	(13)	(4)	(8)	—
Securities sold under agreement to repurchase	(19,410)	(4,475)	(22,642)	(2,055)
Forward currency contracts	(17,140)	(617)	(28,455)	(2,288)
Foreign currency exposure on net monetary items	8,652	11,936	2,011	8,853
Investments at fair value through profit or loss that are equities/warrants	—	2,994	—	4,397
Total net foreign currency exposure	8,652	14,930	2,011	13,250

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

18. Financial Instruments (continued)

Market Risk (continued)

Currency sensitivity

The following tables illustrate 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 £ to euro and £ to US dollar based on the following:

	2014	2013
£/Euro	±2.3%	±2.7%
£/US dollar	±1.9%	±2.5%

The above percentages have been determined based on the market volatility in 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 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 in the table above, this would have had the following effect:

	2014		2013	
	EURO £'000	US DOLLAR £'000	EURO £'000	US DOLLAR £'000
Income statement – loss after taxation				
Revenue return	(66)	(16)	(94)	(19)
Capital return	(201)	(284)	(52)	(331)
Total loss after taxation for the year	(267)	(300)	(146)	(350)

If sterling had weakened against the euro or dollar to this extent, the effect would have been the exact opposite.

In the opinion of the Directors, this 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 when making investment decisions and borrowings using repo financing. The Board reviews on a regular basis the investment portfolio and borrowings. This encompasses the valuation of fixed interest, floating rate securities and gearing levels. When the Company has cash balances, they are held on variable rate bank accounts yielding rates of interest dependent on the base rate of the custodian, Bank of New York Mellon.

Interest rate exposure

At 30 September 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 reset; and

– fixed interest rates (giving fair value interest rate risk) – when the financial instrument is due for repayment.

	2014			2013		
	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	—	33,316	33,316	—	35,749	35,749
Cash at bank	6,441	—	6,441	5,482	—	5,482
	6,441	33,316	39,757	5,482	35,749	41,231
Exposure to fixed interest rates:						
Investments at fair value through profit or loss	—	70,922	70,922	2,267	63,352	65,619
Securities sold under agreements to repurchase	(33,391)	—	(33,391)	(33,702)	—	(33,702)
	(33,391)	70,922	37,531	(31,435)	63,352	31,917
Net exposure to interest rates	(26,950)	104,238	77,288	(25,953)	99,101	73,148

The nominal interest rates on the investments at fair value through profit or loss are shown in the portfolio statement on pages 17 to 19. The weighted average effective interest rate on these investments is 7.0% (2013: 7.0%).

Interest rate sensitivity

The following table illustrates the sensitivity of the profit after taxation for the year to a 1.0% increase in interest rates in regard to the Company's monetary financial assets and financial liabilities. 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 monetary financial instruments held at the balance sheet date, with all other variables held constant.

	2014 INCREASE IN RATE £'000	2013 INCREASE IN RATE £'000
Income statement – profit/(loss) after taxation		
Revenue return	64	55
Capital return	(4,993)	(4,673)
Total profit/(loss) after taxation for the year	(4,929)	(4,618)
Effect on net asset value	(4.4)p	(4.1)p

The effect would have been the exact opposite if interest rates had decreased by the same amount.

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.

18. Financial Instruments (continued)

Market Risk (continued)

(c) *Other Price Risk*

Other price risk (i.e. changes in market prices other than those arising from interest rate risk or currency risk) may affect the value of the portfolio. It is the business of the Manager 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 portfolio by meeting regularly to monitor, on a formal basis, the Manager's compliance with the Company's stated Investment Policy and to review investment performance.

The Company's portfolio is the result of the Manager's investment process and the result is not correlated with the market in which the Company invests, with the value of the portfolio moving as a result of the performance of the company shares held in the portfolio. The Company can hedge part of its portfolio denominated in foreign currency by using repo financing arrangements in the same foreign currency. It can also hold derivative positions in options and futures to hedge movements in the stocks in which the Company's portfolio has an exposure.

The Company's exposure to other changes in market prices at 30 September on its quoted equity investments and fixed interest investments was as follows:

	2014 £'000	2013 £'000
Fixed asset investments at fair value through profit or loss		
– Bonds	104,238	101,368
– Equity	549	465
– Warrants	2,910	4,397
Investments	107,697	106,230
Cash and cash equivalents	6,441	5,482
	114,138	111,712

Concentration of exposure to other price risks

The Company's investment portfolio on pages 17 to 19 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 and warrant investments of £3,459,000 (2013: £4,862,000). 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 £346,000 (2013: £486,000). 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.

Liquidity Risk

This is the risk that the Company may encounter in realising assets or raising/replacing repo financing to meet financial commitments. A lack of liquidity in corporate bonds may make it difficult for the Company to sell its bonds at or near their purported value compounding the liquidity pressure caused by the requirement to roll repo financing at repo maturity dates.

Management of Liquidity Risk

The Manager, as part of the ongoing management of the Company, ascertains the Company's cash requirements taking account of the asset purchases and sales, income receivable from investments, running expenses and dividend payments as well as the ongoing borrowing requirements of the Company arising from repo financing. The Manager reviews the repo financing of the Company on a daily basis, with a view to new repo agreements ending at a quarter end, and rolling of existing repo agreements on a quarterly time basis. If any shortfalls could not be met by repo financing, the Manager could potentially realise the more liquid corporate bonds in the portfolio, taking into account the effect of this on performance as well as the objectives of the Company.

Further details can be found in the 'Gearing Policy' section on page 10 in the Business Review, which also discusses the risks arising from repo financing and gearing of the investment portfolio.

Liquidity Risk Exposure

The contractual maturities of the financial liabilities at 30 September, based on the earliest date on which payment can be required, was as follows:

	2014			2013		
	LESS THAN THREE MONTHS £'000	THREE TO TWELVE MONTHS £'000	TOTAL £'000	LESS THAN THREE MONTHS £'000	THREE TO TWELVE MONTHS £'000	TOTAL £'000
Current liabilities						
Other payables	1,645	—	1,645	1,356	—	1,356
Securities sold under agreement to repurchase	33,391	—	33,391	33,702	—	33,702
	35,036	—	35,036	35,058	—	35,058

Credit Risk

The Company's principal credit risk is the risk of default on the non-investment grade debt. The Company's other main credit risk arises from the repo financing arrangements whereby, if a counterparty failed to sell the required assets to the Company on the repurchase date, the Company would be left with the claim against the defaulting counterparty for the stock and, if applicable, any margin held by the counterparty and not returned.

Credit risk also 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 also includes transactions involving derivatives.

The portfolio may be adversely affected if the custodian of the Company's assets suffers insolvency or other financial difficulties.

Exposure to and Management of Credit Risk

The Company's portfolio of investments on pages 17 to 19 shows the Moody and Standard & Poor ratings and an analysis of this is also shown by the graph on page 4. Where the Manager makes an investment in a bond, corporate or otherwise, the credit rating of the issuer is taken into account to manage the Company's exposure to risk of default. Investments in bonds are across a variety of industrial sectors and geographical markets, to avoid concentration of credit risk.

The Company has exposure to credit risk on securities pledged under repo financing held with three other counterparties: Barclays (rated: A2/A), Citibank (A2/A) and Credit Suisse (A1/A). At the balance sheet date the aggregate credit exposure on these securities was £11.1 million (2013: £15.1 million), being the difference in the market value of securities pledged of £44.5 million (2013: £48.8 million) and the amounts borrowed of £33.4 million (2013: £33.7 million) under repo financing. On this date there was no impairment in the market value of the investments held or pledged under repo financing. The Company manages the credit risk inherent in repo financing by only dealing with good quality counterparties whose credit-standing is reviewed periodically by the Manager. There is a maximum limit allowed with any one counterparty.

Transactions in derivatives, including forward currency contracts (the exposure to which is shown in this note, under currency risk) are entered into only with investment banks, the credit rating of which is taken into account to manage default risk. Failure by counterparties is mitigated by using only approved counterparties.

18. Financial Instruments (continued)

Credit Risk (continued)

The risk associated with failure of the custodian is mitigated by the appointment during the year of a depositary, which is ultimately responsible for safekeeping of the Company's assets and is strictly liable for the recovery of financial instruments in the event of loss. Cash balances are limited to a maximum of £10 million with any one depositary, with only approved depositories being used.

As part of the Board's risk management and control monitoring, the Board reviews the custodian's annual control report and the Manager's management of the relationship with the custodian.

Fair Values of Financial Assets and Financial Liabilities

The financial assets are either carried 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 and cash and cash equivalents). Total gains and losses on investments, represents the total carrying amount of gains and losses on financial assets designated by the Company as financial assets at fair value through profit and loss.

The financial liabilities are carried at amortised cost except for derivatives which are carried at fair value.

19. Classification Under Fair Value Hierarchy

Nearly all of the Company's portfolio of investments are in the Level 2 category as defined in IFRS 7 'Financial Instruments: Disclosures'. The three levels set out in IFRS 7 follow:

Level 1 – fair value based on quoted prices in active markets for identical assets.

Level 2 – fair values based on valuation techniques using observable inputs other than quoted prices within Level 1.

Level 3 – fair values based on valuation techniques using inputs that are not based on observable market data.

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

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, if not all, of the investments are non-equity investments. These securities are priced using evaluated prices from a third party vendor, together with a price comparison made to secondary and tertiary evaluated third party sources. Evaluated prices are in turn based on a variety of sources, including broker quotes and benchmarks. As a result these investments are disclosed as Level 2 – recognising that the fair values of these investments are not as visible as quoted equity investments and their higher inherent pricing risk. However, this does not mean that the fair values shown in the portfolio valuation are not achievable at point of sale. No Level 3 investments were held in the year, or the previous year.

	2014			2013		
	LEVEL 1 £'000	LEVEL 2 £'000	TOTAL £'000	LEVEL 1 £'000	LEVEL 2 £'000	TOTAL £'000
Financial assets designated at fair value through profit or loss						
Debt securities	—	104,238	104,238	—	101,368	101,368
Equities	549	—	549	465	—	465
Warrants	2,910	—	2,910	4,397	—	4,397
Derivative financial instruments:						
– currency hedges	—	384	384	—	802	802
Total for financial assets	3,459	104,622	108,081	4,862	102,170	107,032

20 Maturity Analysis of Contractual Liability Cash Flows

The financial liabilities of the Company comprise securities sold under agreement to repurchase which are all repayable within three months of the balance sheet date totalling £33,391,000 (2013: £33,702,000), together with interest thereon of £50,000 (2013: £49,000). Other liabilities may include forward currency contracts, credit default swaps, amounts due to brokers and accruals. All are paid under contractual terms. Forward currency contracts in place at the balance sheet date were all due within three months. Any amounts due to brokers, are usually payable on the purchase date of the investment plus three business days.

21 Capital Management

The Company's total capital employed at 30 September 2014 was £114,964,000 (2013: £113,511,000) comprising repo financing of £33,391,000 (2013: £33,702,000) and equity share capital and other reserves of £81,573,000 (2013: £79,809,000).

The Company's total capital employed is managed to achieve the Company's objective and investment policy as set out on pages 9 and 10.

The main risks to the Company's investments are shown in the Business Review under the 'Principal Risks and Uncertainties' section on pages 12 to 16. These also explain that the Company is able to gear its portfolio by borrowing in the form of repo financing and that gearing will amplify the effect on equity of changes in the value of the portfolio. At the balance sheet date, net borrowing was 33% (2013: 35%). Shareholders authorised a change in the gearing at the 2014 AGM. Up to this time gearing could be used to raise exposure up to an amount equal to twice shareholders' funds. Thereafter net borrowings cannot exceed 50% of shareholders' funds. Other than this, the Company's policies and processes for managing capital were unchanged throughout the year and the preceding year.

The Board can also manage the capital structure directly since it has taken the powers, which it is seeking to renew, to issue and buy back shares and it also determines dividend payments.

The Company is subject to counterparty imposed requirements with respect to the repo financing and the covenants contained within the overdraft facility agreement. The Board regularly monitors, and has complied with, these requirements and are unchanged from the prior year.

22. Contingent Liabilities

Contingent liabilities that the Company will or has given would be disclosed in this note if any existed.

There were no material outstanding contingent liabilities as at 30 September 2014 (2013: nil).

23. Related Party Transactions and Transactions with the Manager

A related party is a company or individual who has direct or indirect control or who has significant influence over the Company. The Manager is not considered a related party.

Under International Financial Reporting Standards, the Company has identified the Directors as related parties. Details of the Directors' interests and fees are shown in the Directors' Report on pages 29 and 30. No other related parties or related party transactions have been identified during the period.

With effect from 22 July 2014, Invesco Fund Managers Limited (IFML), a wholly owned subsidiary of Invesco Limited and associate company of Invesco Asset Management Limited (IAML), was appointed as Manager. Prior to 22 July 2014, IAML carried out this function and continues to do so under delegated authority of IFML. Details of the basis of fees payable to the Manager are as shown in the Directors' Report on page 31.

THIS NOTICE OF ANNUAL GENERAL MEETING 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 Invesco Perpetual Enhanced Income Limited, 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 GIVEN that the Annual General Meeting (AGM) of Invesco Perpetual Enhanced Income Limited (the 'Company') will be held at 10 a.m. on Tuesday, 3 February 2015 at R&H Fund Services (Jersey) Limited, Ordnance House, 31 Pier Road, St Helier, Jersey JE4 8PW, for the following purposes:

Ordinary Business

1. To receive the Directors' Report and Financial Statements for the year ended 30 September 2014.
2. To re-elect Mr. Donald Adamson a Director of the Company.
3. To re-elect Mr. Gordon Neilly a Director of the Company.
4. To re-elect Mr. Clive Spears a Director of the Company.
5. To reappoint the Auditor, Deloitte LLP, and authorise the Directors to determine their remuneration.

Special Business

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

6. THAT, in substitution for all existing powers, the Company may disapply pre-emption rights and issue equity securities up to a maximum of 11,337,229 shares representing 10% of the total number of shares in issue as at the date of this resolution, provided that such disapplication shall expire (unless and to the extent previously revoked, varied or renewed by the Company in general meeting by special resolution passed by three quarters of shareholders voting thereon) at the earlier of the conclusion of the annual general meeting of the Company to be held in 2016 or 15 months from the date of this resolution but so that this power shall enable the Company to make offers or agreements before such expiry which would or might require equity securities to be issued after such expiry and the directors of the Company may issue equity securities in pursuance of any such offer or agreement as if such expiry had not occurred.
7. THAT, pursuant to Article 12.4 of the Company's Articles of Association and Article 57 of the Companies (Jersey) Law 1991 as amended (the 'Law'), the Company be generally and unconditionally authorised:
   (a) to make one or more market purchases of ordinary shares of 5p in the capital of the Company ('ordinary shares') provided that:
      (i) the maximum aggregate number of ordinary shares authorised to be purchased shall be 14.99% of the Company's listed ordinary shares, this being 16,994,506 on the date of this notice;
      (ii) the minimum price which may be paid for an ordinary share is 5p;
      (iii) the maximum price, exclusive of any expenses, which may be paid for an ordinary share is an amount equal to 105% of the average of the middle market quotations for an ordinary share taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is purchased; and
      (iv) the authority hereby conferred shall expire on the earlier of the conclusion of the next AGM of the Company held after the passing of this resolution or 15 months from the date of the passing of this resolution whichever is the earlier.
   (b) pursuant to Article 58A of the Law, to hold, if the Directors so resolve, as treasury shares any ordinary shares purchased pursuant to the authority conferred in paragraph (a) above.
8. THAT the period of notice required for general meetings of the Company (other than AGMs) shall not be less than 14 days.

Dated 26th November 2014
By order of the Board

R&H Fund Services (Jersey) Limited
Company Secretary

Notes:

1. A form of appointment of proxy accompanies this annual financial report.

   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, duly executed and completed, by one of the following methods:

   - via Capita Asset Services website www.capitashareportal.com; or
   - in hard copy form by post, by courier or by hand to the Company's registrars, Capita Asset Services, The Registry, 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 10a.m. on 1 February 2015.

   The 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 the AGM.

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 Euroclear UK & Ireland Limited'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 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. After this time any change of instructions to proxies through CREST should be communicated to the appointee through other means. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited 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 the practical limitations of the CREST system and timings.

3. A person entered on the Register of Members at close of business 48 hours before the time of the AGM ('a member') is entitled to attend and vote at the AGM 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 AGM. If the AGM 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.

4. The schedule of matters for the Board and the terms of Reference of the Audit and Management Engagement Committees will be available at the AGM for at least 15 minutes prior to and during the AGM.

5. A copy of the Articles of Association is available for inspection at the Registered Office of the Company during normal business hours on any business day (excluding public holidays) until the close of the AGM and will also be available at the AGM for at least 15 minutes prior to and during the AGM.

6. 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.

7. 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 of 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.

8. You may not use any electronic address (any address or number used for the purposes of sending or receiving documents or information by electronic means) 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.

9. As at 26 November 2014 (being the last practicable day prior to the publication of this Notice) the Company's issued share capital consisted of 113,372,293 ordinary shares of 5p each carrying one vote each.

10. A copy of the Notice as well as various other documents relating to the Company can be found at *www.invescoperpetual.co.uk/investmenttrusts*

SHAREHOLDER INFORMATION

The shares of Invesco Perpetual Enhanced Income Limited are quoted on the London Stock Exchange.

Net Asset Value (NAV) Publication

The NAV is published daily in the Financial Times and Daily Telegraph and is calculated as at the close of business each day and notified to the London Stock Exchange the next business day. It can also be found on the Manager's website.

Share Price Listings

The price of your shares can be found in the Financial Times, Daily Telegraph and The Times.

In addition, share price information can be found under the ticker IPE.

Savings Plan and ISA

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

Invesco Perpetual Enhanced Income Limited is also a member of the Invesco Perpetual Investment Trust ISA and Savings Scheme. Shares in this Company can be purchased and sold via these two schemes.

Invesco Perpetual Investment Trust Savings Scheme

The Invesco Perpetual Investment Trust Savings Scheme allows investors to make purchases from £20 per month or through lump sum investments from £500.

Invesco Perpetual Investment Trust ISA

The Invesco Perpetual Investment Trust ISA allows investments up to £15,000 in shares of Invesco Perpetual Enhanced Income Limited in the 2014/15 tax year. Investors can also choose to make lump sum investments from £500, or regular investments from £20 per month.

For queries relating to both the Invesco Perpetual Investment Trust Savings Scheme and ISA, please contact:
Invesco Perpetual
PO Box 11150
Chelmsford
CM99 2DL
☎ 0800 085 8677.

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.

Financial Calendar

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

Announcements	
Half-yearly results	May
Annual results	November/December
Year End	30 September
Dividends Payable	January, April, July and October
Annual General Meeting	January

Location of Annual General Meeting
To be held at 10 a.m. on Tuesday, 3 February 2015 at R&H Fund Services (Jersey) Limited, Ordnance House, 31 Pier Road, St. Helier, Jersey JE4 8PW.

ADVISERS AND PRINCIPAL EXTERNAL SERVICE PROVIDERS

Investment Manager

Invesco Perpetual Enhanced Income Limited is managed by Invesco Fund Managers Limited from 22 July 2014 (previously Invesco Asset Management Limited). Day-to-day management is the responsibility of Paul Read and Paul Causer, who have been involved in the Company's management since 2001 and are members of the UK Fixed Income team.

Invesco Fund Managers Limited
Perpetual Park
Perpetual Park Drive
Henley-on-Thames
Oxfordshire RG9 1HH
☎ 01491 417000

Company Secretary, Administrator and Registered Office

R&H Fund Services (Jersey) Limited
PO Box 83
Ordnance House
31 Pier Road
St Helier
Jersey JE4 8PW
Company Secretarial Contact: Hilary Jones
☎ 01534 825323
Registered in Jersey No. 75059

Registrars

Capita Registrars (Jersey) Limited
12 Castle Street
St Helier
Jersey JE2 3RT
☎ 0871 664 0300

Shareholders holding shares directly and not through a savings scheme or ISA and have queries relating to their shareholding, should contact Capita on the above number.

Calls cost 10p per minute plus network charges.
☎ +44 (0)20 8639 3399 (from outside the UK).
Lines are open 9am to 5.30pm Monday to Friday (excluding UK bank holidays).

Shareholders can also access their details via Capita's website: www.capitaassetservices.com or www.capitashareportal.com

Capita provide an on-line and telephone share dealing service to existing shareholders who are not seeking advice on buying or selling. This service is available at www.capitadeal.com or by ringing ☎ 0871 664 0454
Calls cost 10p per minute plus network charges.
☎ +44 (0)20 3367 2699 (from outside the UK).
Lines are open 8am to 4.30pm Monday to Friday (excluding UK bank holidays).

Dividend Re-investment Plan

Capita also manage a Dividend Re-investment Plan for the Company.

Shareholders wishing to re-invest their dividends should contact the Registrars.

Depositary

BNY Mellon Trust Depositary (UK) Limited
160 Queen Victoria Street
London EC4V 4LA

Auditor

Deloitte LLP
PO Box 403
44 Esplanade
St Helier
Jersey JE4 8WA

Corporate Broker

Panmure Gordon (UK) Limited
One New Change
London EC4M 9AF

Invesco Perpetual Investor Services

Invesco Perpetual has an Investor Services Team available from 8.30am to 6pm every working day. Please feel free to take advantage of their expertise by ringing
☎ 0800 085 8677.

The Association of Investment Companies

The Company is a member of the Association of Investment Companies.

Contact details are as follows:
☎ 020 7282 5555
Email: enquiries@theaic.co.uk
Website: www.theaic.co.uk

GLOSSARY OF TERMS

Borrowing

The gearing percentage reflects the amount of borrowings that a company has invested. This figure indicates the extra amount by which shareholders' funds would move if a company's investments were to rise or fall. A positive percentage indicates the extent to which shareholders' funds are geared; a nil gearing percentage, or a 'nil', shows a company has no borrowings.

There are several methods of calculating gearing and the following has been used in this report:

Gross Borrowing

This reflects the amount of gross borrowings in use by a company and takes no account of any cash balances. It is based on gross borrowings as a percentage of shareholders' funds.

Net Borrowing

This reflects the amount of net borrowings invested, ie borrowings less cash. It is based on net borrowings as a percentage of shareholders' funds.

Discount/Premium

A description of the situation when the share price is lower or higher than the NAV per share. The size of the discount is calculated by subtracting the share price from the NAV per share and is usually expressed as a percentage (%) of the NAV per share. If the share price is higher than the NAV per share, this situation is called a premium and the percentage is commonly shown prefixed with a minus sign.

Leverage

Leverage, for the purposes of the Alternative Investment Fund Managers Directive (AIFMD), is not synonymous with gearing. In addition to borrowings, it encompasses anything that increases the Company's exposure, including foreign currency and exposure gained through derivatives. Leverage expresses the Company's exposure as a ratio of the Company's net asset value. Two methods of calculating such exposure are set out in the AIFMD, gross and commitment. Under the gross method, exposure represents the aggregate of all the Company's exposures other than cash balances held in base currency and without any offsetting. The commitment method takes into account hedging and other netting arrangements designed to limit risk. These are offset against the underlying exposure.

Net Asset Value (NAV)

The value of the Company's assets, principally investments made in other companies and cash held, minus any liabilities for which the Company is responsible, for example money owed to other people. The net assets are also described as 'shareholders' funds'. The NAV is often expressed in pence per share after being divided by the number of shares which have been issued. The NAV per share is unlikely to be the same as the share price which is the price at which the Company's shares can be bought or sold by an investor. The share price is determined by the relationship between the demand and supply for the shares. The one year total return NAV is calculated by adding dividends paid in the year to the year end NAV, and dividing this total by the NAV at the start of the period.

Ongoing Charges

The total expenses excluding interest incurred by the Company, including those charged to capital, as a percentage of average net assets (shareholders' funds).

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.

NA: not available.

Standard & Poor 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

Invesco Perpetual

The Manager of Invesco Perpetual Enhanced Income Limited is Invesco Fund Managers Limited.

Invesco Fund Managers Limited is a wholly owned subsidiary of Invesco Limited and is authorised and regulated by the Financial Conduct Authority.

Invesco Perpetual is a business name of Invesco Fund Managers Limited.

Invesco is one of the largest independent global investment management firms, with funds under management of $790 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 as at 31 October 2014.*

SPECIALIST FUNDS MANAGED BY INVESCO PERPETUAL

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

City Merchants High Yield Trust Limited

A Jersey-incorporated closed-ended Company that aims to generate a high level of income from a variety of fixed income instruments. The Company may use bank borrowings.

Invesco Income Growth Trust plc

Aims to produce income and capital growth superior to that of the UK stock market and a stream of dividends paid quarterly that, over time, grows at above the rate of inflation. The Company may use bank borrowings.

Invesco Perpetual Enhanced Income 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 uses repo financing to enhance returns.

Invesco Perpetual Select Trust plc – Managed Liquidity Portfolio

Aims to generate income from a variety of fixed income instruments combined with a high degree of security. Income will reduce during periods of very low interest rates.

Invesco Perpetual Select Trust plc – UK Equity 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 may use bank borrowings.

Keystone Investment Trust plc

Aims to provide shareholders with long-term growth of capital mainly from UK investments. The Company has debenture stocks in issue.

Perpetual Income and Growth Investment Trust plc

Aims to provide shareholders with capital growth and real growth in dividends over the medium to longer term from a portfolio of securities listed mainly in the UK equity and fixed interest markets. The Company has secured loan stock in issue and, in addition, may use bank borrowings.

The Edinburgh Investment Trust plc

Invests primarily in UK securities with the long-term objective of achieving:

1. an increase of 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 Company has a debenture stock in issue and, in addition, may use bank borrowings.

Investing in Smaller Companies

Invesco Perpetual UK Smaller Companies Investment Trust plc

Aims to achieve long-term total returns for the Company's shareholders from investment in a broad cross-section of small to medium size UK-quoted companies. The pursuit of income is of secondary importance. The Company may use bank borrowings.

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 MSCI All Countries Asia Pacific Ex Japan Index, measured in sterling. The Company may use bank borrowings.

Invesco Perpetual Select Trust plc – Global Equity Income Portfolio

Aims to provide an attractive and growing level of income return and capital appreciation over the long term, predominantly through investment in a diversified portfolio of equities worldwide. The portfolio may use bank borrowings.

Investing for Total Returns

Invesco Perpetual Select Trust plc – Balanced Risk Portfolio

Aims to provide shareholders with an attractive total return in differing economic and inflationary environments and with low correlation to equity and bond market indices by gaining exposure to three asset classes: debt securities, equities and commodities.

The portfolio is constructed so as to balance risk, is long-only, using mainly transparently-priced exchange-traded futures contracts and other derivative instruments to gain such exposure and to provide leverage.

Investing in Multiple Asset Classes

Invesco Perpetual Select Trust plc

- UK Equity Portfolio
- Global Equity Income Portfolio
- Managed Liquidity Portfolio
- Balanced Risk Portfolio

A choice of four investment policies and objectives, each intended to generate attractive risk-adjusted returns from segregated portfolios, with the ability to switch between them, four times a year, free from capital gains tax liability. Dividends paid quarterly, apart from Balanced Risk which will not normally pay dividends.

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.

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