

# **Half-Yearly Financial Report**

**City Merchants**

**High Yield**


**Trust plc**

**Six Months to  
30 June 2010**

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

 0800 085 8677

 [www.invescopetperpetual.co.uk/investmenttrusts](http://www.invescopetperpetual.co.uk/investmenttrusts)

# City Merchants High Yield Trust plc

Registered in England and Wales No. 2649592

## Key Facts

City Merchants High Yield Trust plc is a UK investment trust listed on the London Stock Exchange.

### Objective of the Company

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

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

### Share Capital and Structure

As at 30 June 2010, the Company's authorised share capital was £103.5 million divided into 5,174,116,742 ordinary shares of 2p each of which 72,799,105 were issued fully paid.

Gearing is provided by bank borrowing. At 30 June 2010 the gearing level was 113.

## Performance Statistics

### Total Return for the Six Months Ended 30 June 2010\*

	%
	Change
Total return per ordinary share	+5.5
FTSE All-Share Index	-6.1
FTSE Government Securities – All Stocks Index	+5.7

### Capital Return

	30 June 2010	31 December 2009	
Net asset value per ordinary share	<b>159.36p</b>	156.69p	+1.7
Mid-market price per ordinary share	<b>164.00p</b>	158.00p	+3.8
Premium per ordinary share	<b>2.9%</b>	0.8%	
FTSE All-Share Index*			-7.9
FTSE Government Securities – All Stocks Index*			+3.5

\* Sources: Thomson Datastream, Morningstar and Invesco.

# City Merchants High Yield Trust plc

## Financial Calendar

The Company publishes information according to the following timetable:

### **Announcements**

Half-yearly unaudited results	August
Interim management statement	October
Final results	March/April
Interim management statement	April

### **Ordinary Share Dividends**

Interims payable February, May, August, November

### **Annual General Meeting**

May/June

### **Year-End**

31 December

## Directors

Clive A. H. Nicholson (Chairman)

Christopher F. FitzGerald

Richard H. King

Kenneth G. R. MacLennan

Winifred Robbins

## Manager

Invesco Asset Management Limited

30 Finsbury Square

London EC2A 1AG

Authorised and regulated by the Financial Services Authority

Company Secretarial contact: Kerstin Rucht

☎ 020 7065 4000

# City Merchants High Yield Trust plc

## Interim Management Report incorporating the Chairman's Statement

After the exceptional returns for 2009, I wrote in my statement in the 2009 annual financial report that the Board believed the portfolio to be well positioned to provide opportunities for modest growth while continuing to produce an attractive level of income for shareholders.

Against this background I am pleased to report that, in the six months to 30 June 2010, the total return was 5.5% and the mid-market price per share increased by 3.8%. During the period, the premium to NAV per ordinary share widened from 0.8% to 2.9%.

The Board has declared two interim dividends in respect of the six months to 30 June 2010 – one of 2p per share which was paid together with the sixth interim dividend of 1p per share for the year ended 31 December 2009, and one of 3p per share to be paid on 27 August 2010. Subject to unforeseen circumstances, it remains the Board's objective to pay dividends for the year ending 31 December 2010 of 11p per ordinary share which, together with the additional 1p paid in relation to 2009, will ensure that shareholders receive 12p during 2010.

**Clive Nicholson**  
*Chairman*

25 August 2010

# City Merchants High Yield Trust plc

## Manager's Investment Report

### Market Background

Corporate bond markets began the year strongly, driven by positive sentiment and demand for income generating assets. Despite lingering concerns over sovereign debt, credit spreads tightened further with a rise in investor risk appetite leading to better performance from lower-quality bonds. However, moving into the second quarter markets became increasingly volatile as the sovereign crisis in Europe intensified, leading ultimately to the €750 billion EU/IMF stabilisation package. Greek debt was downgraded to junk status by S&P and Moody's while Portugal and Spain were also downgraded, but remain investment grade. Uncertainty surrounding the 1 July expiry of the European Central Bank's €442 billion one-year loan facility for banks added further tension. However, news that banks borrowed only €132 billion at 1% on the final day of June from the replacement three-month facility was seen as positive. Outside the peripheral Eurozone, the volatility saw government bonds benefit from their safe haven status. UK Gilts, German Bunds and US Treasuries have been the main beneficiaries, with the US 2-year yield reaching a record low of 0.59%.

Corporate bond markets managed to shrug off the sovereign concerns until mid-April when, along with other risk assets, they sold off. According to data from Merrill Lynch, European high-yield spreads commenced the period at 750bps and initially fell below 600bps for the first time since May 2008, before rising back above where they started to 779bps. While the fall in government bond yields saw the Merrill Lynch Euro High Yield Index return 5.1% in euro terms, the weakness of the euro saw returns for sterling-based investors of -3.1%. Spreads on subordinated bank debt, in which the portfolio has positions aggregating around 17%, followed a similar pattern. Despite sterling tier 1 spreads widening by 90bps over Gilts, they still managed to post a 3.5% gain due to the strength of the Gilt rally.

Primary markets saw continued demand for high-yield paper until mid-April, prompting a number of seasoned issuers to extend maturity profiles. For example, French chemical group Rhodia issued an 8-year €500 million 7% bond to refinance an existing bond due to mature in 3 years while Spanish gaming company CIRSA issued €400 million at 8.75% to extend a maturity to a similar extent. However, the onset of the sovereign crisis subsequently saw primary markets grind to a halt. Moody's reported that the European high-yield default rate fell to 6.8% in May, down from the November 2009 peak of 11.8%, and expects the rate to fall to just 1.5% by the end of this year. Chelsea Building Society became the lone European defaulter so far in 2010 when it completed a distressed exchange on its subordinated debt.

### Portfolio Activity and Outlook

In terms of portfolio activity, the managers took advantage of the first-quarter rally to reduce some holdings in positions that had risen significantly over the last year. For example, during March the equity positions in Gate Gourmet and Independent News were reduced after both had seen further price gains. In the new issue market, in

## City Merchants High Yield Trust plc

addition to the previously mentioned refinancings from Rhodia and CIRSA, a number of new positions with attractive coupons were taken, including BPCE (bank) 9%, Abengoa (construction) 8.5%, Kerling (chemical) 10.625%, Matalan (retail) 9.625% and Levi Strauss (retail) 7.75%. Elsewhere a Lloyds TSB tier 1 bond was exchanged for Lloyds equity at a favourable rate while Virgin Media called their 9.75% bonds early following a recent new issue at a lower coupon. The managers also continued to add to financials; for example during June purchases were made of Lloyds Banking Group 6.385% enhanced capital notes and a lower tier 2 bond from Allied Irish Bank with an 11.5% coupon.

In terms of strategy, the portfolio managers favour better quality (BB and B rated) high-yield issuers as well as higher-yielding (BBB rated) investment-grade names. They believe that, with many high-yield credits still offering double-digit yields and both markets and corporate issuers in a recovery phase, high-yield markets continue to offer opportunities. They also see pockets of value in banks and other financials. The average spread on sterling tier 1 bank debt is 662bps and yields are attractive at 9.6%. This compares very favourably with the more defensive investment-grade sectors, such as utilities, where spreads average 139bps and yields 4.9%. Despite their recent weakness as a result of the sovereign debt crisis, the managers believe the credit story of the banks has been strengthened as many have recapitalised, returned to profitability and, in a few cases, recommenced dividend payments. While the drive for more regulation of the banking industry looks inevitable, the managers do not believe that any of the regulatory changes are being made to impair banks; rather that they are being used to de-risk them. A de-levered banking system that holds more capital and has higher levels of liquidity should be positive for bond investors.

As to the outlook, fixed interest markets are likely to see further bouts of volatility in the short term. However, while the focus remains on governments with excessive debt levels, it should be remembered that there are reasons to be positive. For example, corporate balance sheets remain generally strong and there is continued demand for income from investors. While it is possible that there will be a modest increase in short-term interest rates from the continuing emergency levels, it would be surprising if they moved significantly higher over the next couple of years. There is still a huge amount of deleveraging required, while reduced bank lending and a weak labour market will continue to restrain economic activity. Consequently, with many bonds still offering double-digit yields, it should be expected that higher-yielding corporate bonds will remain attractive as an income-producing asset class.

### **Invesco Asset Management Limited**

*Manager*

**Paul Read Paul Causer**

*Portfolio Managers*

25 August 2010

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## Related Parties

Invesco Asset Management Limited ('IAML'), a wholly-owned subsidiary of Invesco Limited, acts as Manager and Company Secretary to the Company. Details of IAML's services and fee arrangements are given in the latest annual financial report, which is available on the Company's website.

## Principal Risks and Uncertainties

There is no guarantee that the Company's investment objective will be achieved or will provide the returns sought by the Company. The principal risk factors relating to the Company can be divided into the following areas:

- Investment Policy (incorporating the Investment Objective) and Process;
- Market Movement and Portfolio Performance;
- The Ordinary Shares;
- Gearing;
- High-Yield Fixed-Interest Securities;
- Derivatives; and
- Regulatory and Tax related.

A detailed explanation of these factors can be found in pages 28 to 30 of the 2009 annual financial report, which is available on the Company's website.

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

## Going Concern

The financial statements are prepared on a going concern basis. At the Annual General Meeting held on 2 June 2010, the Directors proposed an ordinary resolution to release the Directors from their obligation to convene an Extraordinary General Meeting in 2010 to wind up the Company. 99.5% of all votes cast were in favour of the continuation of the Company.

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

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



# City Merchants High Yield Trust plc

## Directors' Responsibility Statement

in respect of the preparation of the half-yearly financial report.

The Directors are responsible for preparing the half-yearly financial report, using accounting policies consistent with applicable law and UK Accounting Standards.

The Directors confirm that to the best of their knowledge:

- the condensed set of financial statements contained within the half-yearly financial report have been prepared in accordance with the Accounting Standards Board's Statement 'Half-Yearly Financial Report';
- the interim management report includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R of the FSA's Disclosure and Transparency Rules; and
- the interim management report includes a fair review of the information required on related party transactions.

The half-yearly financial report has not been audited or reviewed by the Company's auditors.

Signed on behalf of the Board of Directors.

**Clive Nicholson**

Chairman

25 August 2010

# City Merchants High Yield Trust plc

## Thirty Largest Investments at 30 June 2010

Issuer/Issue	Sector	Country of Incorporation	Market Value £'000	% of Portfolio
<b>Lloyds Banking Group</b>	Financials	UK		
7.975% Sep 15 24			2,724	
7.869% Aug 25 20			768	
Ord 10p			727	
6.439% May 23 20			584	
6.385% May 12 20			296	
16.125% Dec 10 24			127	
			.....	
			5,226	4.5
<b>Ford Motor</b>	Consumer Goods	USA	4,817	4.1
7.45% Jul 16 31				
<b>Societe Generale</b>	Financials	France	3,761	3.2
8.875% Perpetual				
<b>Premier Farnell</b>	Industrials	UK	3,288	2.8
Pfd 89.2p Cum Cnv Red				
<b>Citigroup</b>	Financials	USA	1,505	
Flt Jun 28 67			876	
7.5% Dec 15 12			51	
Com USD 0.01			.....	
			2,432	2.1
<b>Aviva</b>	Financials	UK	2,385	2.0
6.125% Perpetual				
<b>Intergen</b>	Oil & Gas	Holland	2,030	
9.5% Jun 30 17			204	
8.5% Jun 30 17			.....	
			2,234	1.9
<b>Virgin Media Finance</b>	Consumer Services	UK	1,021	
8.75% Oct 15 19			991	
7% Jan 15 18			.....	
			2,012	1.7
<b>Cemex Sab</b>	Consumer Goods	Mexico	1,992	1.7
4.875% Mar 15 15 Cnv				
<b>Balfour Beatty</b>	Industrials	UK	1,988	1.7
Ord 10.75p				
<b>General Motors</b>	Consumer Goods	USA	1,943	1.7
8.375% Jul 05 33				
<b>Credit Agricole</b>	Financials	France	1,819	1.6
Flt 7.589% Perpetual				
<b>GMAC</b>	Financials	USA	1,245	
6.625% Dec 17 10			212	
7% Series G Perpetual Prf			178	
8% Dec 31 18			161	
7.5% Dec 31 13			.....	
			1,796	1.5
<b>Rexam</b>	Industrials	UK	1,782	1.5
Flt 6.75% Jun 29 67				
<b>Santander</b>	Financials	Spain	1,637	
Flt 11.3% Perpetual			126	
Flt 6.5% Jul 27 19			.....	
			1,763	1.5

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Issuer/Issue	Sector	Country of Incorporation	Market Value £'000	% of Portfolio
<b>FMG Finance</b> 9.75% Sep 01 13	Basic Materials	Australia	1,741	1.5
<b>First Hydro Finance</b> 9% Jul 31 21	Utilities	UK	1,738	1.5
<b>Catlin Insurance</b> 7.25% Dec 31 49	Financials	USA	1,675	1.4
<b>Wind Acquisition</b> 11.75% Jul 15 17 9.75% Dec 01 15	Consumer Services	Italy	839 830 1,669	1.4
<b>UPC Germany</b> 9.625% Dec 01 19	Financials	Germany	1,668	1.4
<b>Pipe</b> 9.75% Nov 01 13 7.75% Nov 01 11	Basic Materials	UK	969 679 1,648	1.4
<b>Legrand</b> 8.5% Feb 15 25	Industrials	France	1,616	1.4
<b>Nielsen</b> 9% Aug 01 14 11.125% Aug 01 16	Consumer Services	Holland	828 773 1,601	1.4
<b>BAC Capital Trust</b> 5.25% Aug 10 35	Financials	USA	1,564	1.4
<b>American International</b> Flt 8.625% May 22 68 8.175% May 15 68 Flt 4.875% Mar 15 67	Financials	USA	730 522 261 1,513	1.3
<b>Rea Finance</b> 9.5% Dec 31 17	Consumer Goods	Holland	1,455	1.2
<b>Alcatel – Lucent</b> 6.45% Mar 15 29 6.5% Jan 15 28 5% Jan 01 15 Cnv	Technology	USA	876 442 128 1,446	1.2
<b>Peabody Energy</b> 4.75% Dec 15 66	Basic Materials	USA	1,306	1.1
<b>General Accident</b> Prf 8.875%	Financials	UK	1,225	1.1
<b>Gategroup</b> Chf 5	Consumer Goods	Switzerland	1,181	1.0
			62,284	53.2
Other investments			54,701	46.8
<b>Total investments</b>			<b>116,985</b>	<b>100.0</b>

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## Condensed Income Statement

	<i>Six Months to 30 June 2010 (Unaudited)</i>		
	<i>Revenue £'000</i>	<i>Capital £'000</i>	<i>Total £'000</i>
Gains on investments	—	336	336
Foreign exchange profits	—	1,692	1,692
Income			
UK dividends	279	—	279
UK unfranked investment income – interest	1,406	—	1,406
Overseas interest	3,201	—	3,201
Overseas dividends	52	—	52
Deposit interest	9	—	9
Scrip dividends	14	—	14
Liquidation distribution – note 5	—	—	—
Interest on VAT recovered – note 5	—	—	—
	<b>4,961</b>	<b>2,028</b>	<b>6,989</b>
Investment management fee	(277)	(149)	(426)
VAT recoverable on management fees	—	—	—
Other expenses	(246)	(1)	(247)
<b>Net return before finance costs and taxation</b>	<b>4,438</b>	<b>1,878</b>	<b>6,316</b>
Finance costs	(76)	(41)	(117)
<b>Return on ordinary activities before taxation</b>	<b>4,362</b>	<b>1,837</b>	<b>6,199</b>
Taxation	(4)	—	(4)
<b>Return on ordinary activities after taxation</b>	<b>4,358</b>	<b>1,837</b>	<b>6,195</b>
<b>Return per ordinary share – note 2</b>	<b>6.0p</b>	<b>2.5p</b>	<b>8.5p</b>

The total column represents the Company's profit and loss account. The supplementary revenue and capital columns are prepared in accordance with the Statement of Recommended Practice issued by the Association of Investment Companies ('AIC'). All items in the above statement derive from continuing operations and the Company has no other gains or losses. No statement of recognised gains or losses is therefore presented. No operations were acquired or discontinued in the period.

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## Condensed Income Statement

	Six Months to 30 June 2009 (Unaudited)		Year to 31 December 2009 (Audited)	
	Revenue £'000	Capital £'000	Total £'000	Total £'000
Gains on investments	—	7,297	7,297	32,293
Foreign exchange profits	—	3,298	3,298	2,260
Income				
UK dividends	365	—	365	851
UK unfranked investment income – interest	1,030	—	1,030	1,644
Overseas interest	2,006	—	2,006	4,920
Overseas dividends	47	—	47	35
Deposit interest	13	—	13	19
Scrip dividends	44	—	44	83
Liquidation distribution – note 5	—	57	57	469
Interest on VAT recovered – note 5	14	—	14	14
	3,519	10,652	14,171	42,588
Investment management fee	(137)	(74)	(211)	(571)
VAT recoverable on management fees	—	—	—	25
Other expenses	(212)	(2)	(214)	(726)
<b>Net return before finance costs and taxation</b>	<b>3,170</b>	<b>10,576</b>	<b>13,746</b>	<b>41,316</b>
Finance costs	(142)	(76)	(218)	(346)
<b>Return on ordinary activities before taxation</b>	<b>3,028</b>	<b>10,500</b>	<b>13,528</b>	<b>40,970</b>
Taxation	—	—	—	2,421
<b>Return on ordinary activities after taxation</b>	<b>3,028</b>	<b>10,500</b>	<b>13,528</b>	<b>43,391</b>
<b>Return per ordinary share – note 2</b>	<b>5.1p</b>	<b>17.7p</b>	<b>22.8p</b>	<b>70.0p</b>

# City Merchants High Yield Trust plc

## Condensed Reconciliation of Movements in Shareholders' Funds

	Share Capital £'000	Share Premium £'000	Special Reserve £'000	Capital Redemption Reserve £'000	Capital Reserve £'000	Revenue Reserve £'000	Total £'000
<b>Year Ended 31 December 2009 and Six Months Ended 30 June 2010</b>							
At 31 December 2008	1,175	119,663	11,644	8,410	(89,173)	5,540	57,259
Return for the period from the income statement	—	—	—	—	34,425	8,966	43,391
Dividends paid – note 3	—	—	—	—	—	(7,209)	(7,209)
Issue of new shares	281	20,348	—	—	—	—	20,629
<hr/>							
<b>At 31 December 2009</b>	<b>1,456</b>	<b>140,011</b>	<b>11,644</b>	<b>8,410</b>	<b>(54,748)</b>	<b>7,297</b>	<b>114,070</b>
Return for the period from the income statement	—	—	—	—	1,837	4,358	6,195
Dividends paid – note 3	—	—	—	—	—	(4,249)	(4,249)
<hr/>							
<b>At 30 June 2010</b>	<b>1,456</b>	<b>140,011</b>	<b>11,644</b>	<b>8,410</b>	<b>(52,911)</b>	<b>7,406</b>	<b>116,016</b>
<hr/>							
<b>Six Months Ended 30 June 2009</b>							
At 31 December 2008	1,175	119,663	11,644	8,410	(89,173)	5,540	57,259
Return for the period from the income statement	—	—	—	—	10,500	3,028	13,528
Dividends paid – note 3	—	—	—	—	—	(3,558)	(3,558)
Issue of new shares	33	1,843	—	—	—	—	1,876
<hr/>							
<b>At 30 June 2009</b>	<b>1,208</b>	<b>121,506</b>	<b>11,644</b>	<b>8,410</b>	<b>(78,673)</b>	<b>5,010</b>	<b>69,105</b>
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# City Merchants High Yield Trust plc

Registered in England and Wales No. 2649592

## Condensed Balance Sheet

	<b>30 June 2010 (Unaudited) £'000</b>	<b>30 June 2009 (Unaudited) £'000</b>	<b>31 December 2009 (Audited) £'000</b>
<b>Fixed assets</b>			
Investments at fair value through profit or loss:			
United Kingdom	<b>48,693</b>	26,928	35,456
Overseas	<b>68,292</b>	44,979	79,196
	<b>116,985</b>	71,907	114,652
<b>Current assets</b>			
Deferred tax asset	<b>5,000</b>	2,600	5,000
Debtors	<b>22</b>	1,301	—
Prepayments and accrued income	<b>2,492</b>	2,151	2,614
Unrealised gain on forward currency contract	<b>902</b>	983	374
Cash at bank	<b>6,041</b>	1,832	2,859
	<b>14,457</b>	8,867	10,847
<b>Creditors: amounts falling due within one year</b>			
Bank loan	<b>(15,078)</b>	(10,814)	(11,108)
Accruals	<b>(348)</b>	(830)	(321)
Tax payable	<b>—</b>	(25)	—
	<b>(15,426)</b>	(11,669)	(11,429)
<b>Net current liabilities</b>	<b>(969)</b>	(2,802)	(582)
<b>Total assets less current liabilities</b>	<b>116,016</b>	69,105	114,070
<b>Capital and reserves</b>			
Share capital	<b>1,456</b>	1,208	1,456
Share premium	<b>140,011</b>	121,506	140,011
Special reserve	<b>11,644</b>	11,644	11,644
Capital redemption reserve	<b>8,410</b>	8,410	8,410
Capital reserve	<b>(52,911)</b>	(78,673)	(54,748)
Revenue reserve	<b>7,406</b>	5,010	7,297
<b>Shareholders' funds</b>	<b>116,016</b>	69,105	114,070
<b>Net asset value per ordinary share – note 2</b>	<b>159.36p</b>	114.39p	156.69p

# City Merchants High Yield Trust plc

## Condensed Cash Flow Statement

	<b>Six Months to 30 June 2010 (Unaudited) £'000</b>	<b>Six Months to 30 June 2009 (Unaudited) £'000</b>	<b>Year to 31 December 2009 (Audited) £'000</b>
<b>Net cash flow from operating activities</b>	<b>4,416</b>	2,949	5,360
<b>Servicing of finance</b>	<b>(122)</b>	(299)	(437)
<b>Taxation</b>	<b>—</b>	—	—
<b>Capital expenditure and financial investment</b>			
Purchase of investments	<b>(38,213)</b>	(18,497)	(81,240)
Sale of investments	<b>36,216</b>	17,623	68,567
<b>Equity dividends paid</b>	<b>(4,249)</b>	(3,558)	(7,209)
<b>Cash outflow before financing</b>	<b>(1,952)</b>	(1,782)	(14,959)
<b>Financing</b>			
Increase/(decrease) in borrowings	<b>2,806</b>	(6,040)	(3,925)
Cash received from Invesco Perpetual European Absolute Return Trust plc	<b>—</b>	—	965
Placing and offer for subscription for cash	<b>—</b>	—	10,480
Net proceeds from issue of ordinary shares	<b>—</b>	1,876	2,520
<b>Increase/(decrease) in cash</b>	<b>854</b>	(5,946)	(4,919)
Cash (inflow)/outflow from (increase)/ decrease in debt	<b>(2,806)</b>	6,040	3,925
<b>Change in net debt resulting from cash flows</b>	<b>(1,952)</b>	94	(994)
Translation difference	<b>1,164</b>	65	1,886
<b>Movement in net debt in the period</b>	<b>(788)</b>	159	892
Net debt at beginning of period	<b>(8,249)</b>	(9,141)	(9,141)
<b>Net debt at end of period</b>	<b>(9,037)</b>	(8,982)	(8,249)
<b>Analysis of changes in net debt:</b>			
Brought forward:			
Cash	<b>2,859</b>	7,778	7,778
Bank loans	<b>(11,108)</b>	(16,919)	(16,919)
Net debt brought forward	<b>(8,249)</b>	(9,141)	(9,141)
Cash (outflow)/inflow from bank	<b>(1,952)</b>	94	(994)
Exchange movements	<b>1,164</b>	65	1,886
<b>Net debt at end of period</b>	<b>(9,037)</b>	(8,982)	(8,249)



# City Merchants High Yield Trust plc

## Notes to the Half-Yearly Financial results

### 1. Accounting Policies

The condensed financial statements have been prepared using the same accounting policies as those adopted in the annual financial report for 31 December 2009, and are prepared in accordance with the Statement of Recommended Practice ('SORP') 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued by the Association of Investment Companies in January 2009.

### 2. Basis of Return and Net Asset per Ordinary Share

	<i>Six Months to 30 June 2010</i>	<i>Six Months to 30 June 2009</i>	<i>Year Ended 31 December 2009</i>
<b>Returns:</b>			
Revenue return after tax	<b>£4,358,000</b>	£3,028,000	£8,966,000
Capital return after tax	<b>£1,837,000</b>	£10,500,000	£34,425,000
Total return after tax	<b>£6,195,000</b>	£13,528,000	£43,391,000

Weighted average number of shares in issue during the period	<b>72,799,105</b>	59,280,557	62,018,845
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#### **Net Asset Value:**

Shareholders' funds	<b>£116,016,000</b>	£69,105,000	£114,070,000
Number of shares in issue at the period-end	<b>72,799,105</b>	60,409,286	72,799,105

### 3. Dividends on Ordinary Shares – Dividends Paid

<i>Year</i>	<i>Quarterly dividend period</i>	<i>Rate</i>	<i>Six Months to 30 June 2010 £'000</i>	<i>Six Months to 30 June 2009 £'000</i>	<i>Year Ended 31 December 2009 £'000</i>
2008	4th interim	3p	—	1,779	1,779
2009	1st interim	3p	—	1,779	1,779
2009	2nd interim	3p	—	—	1,823
2009	3rd interim	3p	—	—	1,828
2009	4th interim	1p	<b>609</b>	—	—
2009	5th interim	2p	<b>1,456</b>	—	—
2009	6th interim	1p	<b>728</b>	—	—
2010	1st interim	2p	<b>1,456</b>	—	—
Total dividends paid in the period			<b>4,249</b>	3,558	7,209

The 2nd interim dividend for 2010 of 3p has been declared and will be paid on 27 August 2010 to shareholders on the register on 30 July 2010.

# City Merchants High Yield Trust plc

## 4. Ordinary Shares of 2p each

	<i>Six Months to 30 June 2010</i>	<i>Six Months to 30 June 2009</i>	<i>Year Ended 31 December 2009</i>
Nominal number of Ordinary Shares in issue:			
Brought forward	<b>72,799,105</b>	58,759,286	58,759,286
Issued in period	—	1,650,000	14,039,819
Carried forward	<b>72,799,105</b>	60,409,286	72,799,105
Average price of shares issued	<b>n/a</b>	113.7p	146.9p

5. As reported in previous annual financial reports, VAT recovered on management fees paid by the Company has been credited to revenue and capital, in the same proportions as originally charged to the income and capital accounts and VAT recovered on management fees by the old CMHYT has been credited as a liquidation distribution to capital. The Board expects to receive additional refunds of VAT from the previous manager, together with interest. As the amounts involved and timings of receipts are uncertain, no provision is made in these half-yearly statements.
6. It is the intention of the Directors to conduct the affairs of the Company so that it satisfies the conditions for approval as an investment trust company set out in section 1158 of the Corporation Tax Act 2010 (formerly s842 of the Income and Corporation Taxes Act 1988).
7. The financial information contained in this half-yearly financial report does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. The financial information for the half-years ended 30 June 2010 and 30 June 2009 have not been reviewed or audited. The figures and financial information for the year ended 31 December 2009 are extracted and abridged from the latest published accounts and do not constitute the statutory accounts for that year. Those accounts have been delivered to the Registrar of Companies and included the Report of the Independent Auditors, which was unqualified.

By order of the Board  
**Invesco Asset Management Limited**  
*Company Secretary*

25 August 2010

## Specialists Funds Managed by Invesco Perpetual

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

City Merchants High Yield Trust plc  
The Edinburgh Investment Trust plc  
Invesco Income Growth Trust plc  
Invesco Leveraged High Yield Fund Limited  
Invesco Perpetual Recovery Trust 2011 plc  
Invesco Perpetual Select Trust plc – Managed Liquidity Share Portfolio  
Invesco Perpetual Select Trust plc – UK Equity Share Portfolio  
Invesco Property Income Trust Limited  
Keystone Investment Trust plc  
Perpetual Income and Growth Investment Trust plc

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Investing in Smaller Companies

Invesco Perpetual UK Smaller Companies Investment Trust plc

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Investing Internationally

Invesco Asia Trust plc  
Invesco Perpetual Select Trust plc – Global Equity Share Portfolio

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Investing for Absolute Returns

Invesco Perpetual Select Trust plc – Hedge Fund Share Portfolio

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Investing in Multiple Asset Classes

Invesco Perpetual Select Trust plc – see above for various investment classes

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Other

Invesco Perpetual AiM VCT plc

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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](http://www.invescoperpetual.co.uk/investmenttrusts)



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Invesco Limited and is authorised and regulated by  
the Financial Services Authority**

**Invesco Perpetual is a business name of  
Invesco Asset Management Limited**

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