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THE MONTHLY HIGH INCOME TRUST PLC
GROUP ANNUAL REPORT AND ACCOUNTS
FOR THE PERIOD FROM 8 OCTOBER 1998 TO 30 NOVEMBER 1999



COMPANIES HOUSE

10/03/00

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Directors and Advisers

The Directors of the Company, all of whom are non-executive, are as follows:

Nicholas Hood CBE (64), is Chairman of @Bristol, a Non - executive director of Winterthur Life UK Ltd and The Quarterly High Income Trust PLC. A Director of The Harbourside Centre and The Harbourside Foundation. He is a member of The Prince of Wales's Council, Deputy Chairman of Business in the Community, President of the International Water Services Association and a Trustee of the Bristol Cancer Help Centre.

Nigel Sidebottom (48), is a director of BFS Investments plc. He is also a non-executive director of Invesco Continental Smaller Companies Trust plc and Fleming Managed Growth plc.

Lord McGowan (61), is Chairman of Panmure Gordon & Co. Limited. He is also a director of BNB Resources PLC, Halma p.l.c and West Merchant Bank Holdings Limited.

David Keen (48), is a director of The Quarterly High Income Trust PLC.

Except for David Keen, all of the directors are independent of the Investment Manager.

Investment Manager

Morley Fund Management Limited

1 Poultry, London EC2R 8EJ

Tel: 020 7809 6000

Fax: 020 7489 7940

Morley Fund Management limited is a subsidiary undertaking of CGU plc.

Fund Manager: Alastair Mundy

Secretary and Registered Office

R A Whitaker

St Helen's

1 Undershaft, London EC3P 3DQ

Tel: 0207 283 2000

Auditors

KPMG Audit Plc

8 Salisbury Square

London EC4Y 8BB

Stockbrokers

Warburg Dillon Read

1 Finsbury Avenue

London EC2M 2PP

Registrars

Lloyds TSB Registrars

Registrars Department

117 Dundas Street

Edinburgh EH3 5ED

Bankers

Citibank NA

336 The Strand

London WC2R 1HB

Company number: 3646931

Shareholder Helpline: 0870 6015366

Broker Helpline: 0906 5596025

Chairman's statement

I have pleasure in presenting the first annual report of the Monthly High Income Trust PLC (MHIT) and its subsidiary for the period ended 30 November 1999.

Following the successful launch of the Group the first priority of your board and investment manager was to put in place the appropriate investment structure to meet the commitments given in the issuing prospectus. This was successfully completed by the end of the first quarter.

Over the period under review the Company's total return per Ordinary share was 8.24p, a return before set up costs of 17.5%. After allowing for set up costs of 2.95p per share, this provided a total net return of 10.6%. Included in this figure, shareholders received a net dividend of 4.47p as indicated in the issuing prospectus.

A strong equity market in the UK supported the background to this performance. Historically, the market's overall performance has been dominated by the performance of a narrow section of the market or a small number of sectors. This was most certainly the case during the period under review. The performance of large cap companies, which for many years have been the powerhouse behind the market, took a rear seat to the performance of medium and smaller sized stocks. While the FTSE 100 index produced a total return of 17.5% over the period, the FTSE 250 rose by 29.9% and the FTSE Small Cap by a staggering 43%. The index that most closely matches the objectives of the Group, the FTSE High Yield Index, produced a return of 15.4%.

An area of the market, which has recently attracted considerable interest from investors and comment from the press, is the technology sector. The performance of technology in all its various forms has been one of the principal drivers behind the rise in markets. The relative outperformance of individual sectors in this area has extended to several hundred per cent. Unfortunately, the lack of any yield from this sector effectively precludes your managers from participating in this area of the market. Despite this, the Group was able to pursue its investment policy to good effect as detailed in the Investment Managers report.

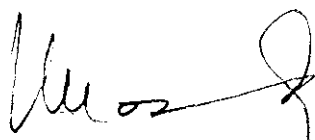
Your Company was the first quoted UK company to pay dividends on a monthly basis and whilst we were unable to pay an even flow over the period due to the uneven receipt of dividends from the market, the Company has successfully established this process with no unforeseen difficulties. Shareholders will have received requests from the Company to complete bank mandates to permit the payment dividends directly into their bank or building society accounts. I would like to thank those shareholders that have complied with our requests and encourage others to do so when next requested as it allows the Company to achieve significant cost savings.

The year under review has been significant for the investment trust sector. In response to the long standing problem of discounts and the desire of institutional shareholders to reduce their commitment to the conventional investment trust market, the Association of Investment Trust Companies (AITC) embarked on a major advertising campaign to raise the industry's profile with private investors. This campaign was funded on a voluntary basis by individual trusts with contributions based on the size of their assets and the discount, if any, that the trust was trading on. A total of £18 m. was raised from 170 trusts. After careful consideration by your Board and given the position of the MHIT, we decided not to participate. We will however, monitor the situation and keep the situation under review.

In addition to the above, individual companies have increased share repurchases, which along with other corporate actions culminated in an outflow of assets from the sector of £4.2bn. In contrast the split capital sector of the market in which your Group operates, raised a net £1.4bn out of a total gross inflow of £1.9bn. This reflects the relative health of the split capital sector and underlines the value investors attach to well structured high income products. Whilst this gives us some comfort, we are only too aware of the dangers of complacency both for the sector and ourselves. With this in mind we must ensure by our own efforts a fair and reasonable valuation of the Group's equity in the market place.

Overall prospects for the Group remain sound. The valuation of the high yielding sector of the market in which we operate is not overstretched, having not fully participated in the markets recent rise. We

are confident that our dividend requirements are achievable and our portfolio income stream is secure. We will make some move in the coming year towards equalising the Company's dividend flow moving closer to the ultimate objective of 12 even dividends.



Nicholas Hood, Chairman

19 January 2000

Investment manager's review

Over the period 8 October 1998 to 30 November 1999, the market has been dominated by a number of strong top down themes. The Company was launched just as the gloom surrounding the global economy began to clear. Interest rates were falling and the prospects for Asia and the domestic economy were looking brighter. This led to a strong rally in the share prices of those companies sensitive to the level of economic activity. Over the summer however, it became clear that the regime of loose monetary policy had brought the world back from the deflationary abyss and that western economies needed to slow down. Consequently, interest rates in the US were raised, shortly followed by those in the UK and Europe. This sparked a rotation into growth stocks, which narrowed even further in the final quarter with the market's enthusiasm for Telecom, Technology, and Internet stocks showing no limit.

Pronounced market rotations throw up pricing anomalies suited to our value based investment style. The thrust of our investment approach is to identify sound strategic assets that the market is mispricing. This strategy resulted in a bias towards resources, industrials, and financials at the start of the period producing strong performance over the first half. As these assets appreciated in value they became less attractive according to our screening process. Gains were realised in stocks such as Billiton, Barclays, Cookson, Enterprise Oil, Fairey Group, Lonmin, Lasmo, and RMC. Positions were maintained in housebuilders and chemicals where the assets in our view still offer considerable strategic value.

Proceeds were invested in companies such as AstraZeneca, Cadbury Schweppes, Cable & Wireless, Marks & Spencer, Powergen, Railtrack, Smith & Nephew, and Thistle Hotels. The narrowness of the market in the second half created a challenging environment for our equity portfolio. We are confident that our investment strategy will add value on a medium term view and as such have added to existing holdings in those companies with strong franchises, durable brands and dominant market positions. Utilities are of particular interest with regulatory risk now greatly eased and valuations sitting on large discounts to asset values.

The significant pick up in corporate activity over the period benefited the Company considerably with our investment style naturally favouring stocks that appear vulnerable to potential predators. Companies held by the Company benefiting from bid or merger approaches during this period include Asda, Inn Business Group, Nat West Bank, Pemberstone, Rugby Group, United News & Media, and United Biscuits. The Company will invest in securities other than equities if by doing so its income flow can be enhanced without adding undue capital risk. Our investments in the split capital investment trust new issues, Technology & Income and Guinness Flight Geared Income are good examples of this, both significantly contributing to the Company's performance. The majority of the portfolio will remain invested in UK equities where we continue to seek out high yielding securities that will add to the Company's net assets.

Investments

Analysis of largest investments as at 30 November 1999.

Company	Valuation	
	£'000	%
National Westminster Bank - Ordinary	3,739	4.3
Guinness Flight Geared Inc - Ordinary	3,339	3.8
Powergen - Ordinary	2,239	2.6
Abbey National - Ordinary	2,120	2.4
Thistle Hotels - Ordinary	1,997	2.3
Shell Transport & Trading - Ordinary	1,928	2.2
Murray Global Return - Ordinary	1,924	2.2
Jupiter Enhanced IT Income - Ordinary	1,888	2.2
JZ Equity Partners - Ordinary	1,859	2.1
P & O - Ordinary	1,750	2.0
UTD Utilities - Ordinary	1,667	1.9
Bank of Scotland - Preference	1,653	1.9
Halifax Group - Ordinary	1,653	1.9
Diageo - Ordinary	1,647	1.9
Astra Zeneca Group - Ordinary	1,633	1.9
Technology & Income Trust - Ordinary	1,620	1.9
Severn Trent - Ordinary	1,541	1.8
Abbey National - Preference	1,521	1.7
UTD News & Media - Ordinary	1,510	1.7
Gartmore Shared Eq Geared - Ordinary	1,469	1.7
20 Largest Investments	38,697	44.4
Other Investments (71 holdings)	48,441	55.6
Total Investments	87,138	100.0

Portfolio Summary	%	£m
Equity Shares	84.5	73.6
Preference Shares	12.9	11.2
Debentures	1.0	0.9
Cash	1.6	1.4

Financial Summary

for the period ended 30 November 1999

	1999
Revenue	
Gross income (£'000)	4,931
Net revenue before taxation (£'000)	4,372
Net revenue after taxation (£'000)	3,903
Earnings per share	4.87p
Dividend per share paid/proposed for the period	4.47p
Assets	
Based on valuation of fixed asset investments as shown in the balance sheet:	
Total assets less liabilities (£'000)	40,761
Net asset value per share	50.8p
Total return per share	8.24p
Middle market quotation: of shares	Ordinary Preference
At 30 November 1999	54.3p 55.3p
Highest during period to 30 November	58.5p 55.8p
Lowest during period to 30 November	50.0p 51.8p
Number of shareholders	
Ordinary	622
Preference	1623

Financial Calendar

Annual general meeting	11 April 2000
Publication of six months results *	1 August 2000

* The above information should be taken only as a guide.

Directors' Report

The directors submit their Report and Accounts for the period from 8 October 1998 to 30 November 1999.

CHANGE OF NAME

The Company was incorporated on 8 October 1998. The Company changed its name from Hackplimco (No. Fifty – Four) Public Limited Company to The Monthly High Income Trust PLC on 14 October 1998 and commenced trading on 4 December 1998.

PRINCIPAL ACTIVITIES

The business of the Company is that of an investment trust. It is the directors' intention that the Company will conduct its affairs so as to qualify for approval as an investment trust for the purposes of Section 842 of the Income and Corporation Taxes Act 1985.

The Board has pursued the investment objective of providing shareholders with an above average level of income with some prospect of growth, while at least maintaining the initial net asset value of the Geared Ordinary Shares. The gearing is achieved by having Zero Dividend Preference Shares (issued by the subsidiary company) which have a fixed return, the cost of which is charged to capital.

DIRECTORS AND DIRECTORS' INTERESTS

The directors who held office during the period from 26 October 1998 to 30 November 1999 were as follows:

W N Hood
Lord McGowan
N G N Sidebottom
D R Keen

Mr Hood will retire by rotation in accordance with Article 81 of the Articles of Association and, being eligible, will be proposed for re-election at the Annual General Meeting. The Articles also require that one third of the directors retire by rotation and submit themselves for re-election. In order to ensure compliance with the spirit of this provision, the Board has resolved further that no director shall serve for a period of greater than three consecutive years without submitting himself for re-election.

None of the directors has a service contract with the Company. No director was materially interested in any contract that was significant in relation to the Company's business at any time during the period.

There is an agreed procedure for directors to seek independent professional advice if necessary and at the Company's expense.

The interests of the directors and of their families in the Ordinary shares of the Company, as shown in the Register of Directors' Interest maintained in accordance with Section 325(1) of the Companies Act 1985, are set out below and all such holdings represent beneficial interests.

Ordinary Shares of 1p each

	<u>8 October 1998</u>	<u>30 November 1999</u>
W N Hood	10,000	10,000
Lord McGowan	10,000	10,000
N G N Sidebottom	-	5,000
D R Keen	-	-
	<u>20,000</u>	<u>25,000</u>

There have been no changes in the interests shown in the statement above during the period 8 October 1998 to the date of this report.

BUSINESS REVIEW

A review of the business has been given in The Investment Manager's Review on page 4.

	1999 £000
Net revenue for the period	3,903
Proposed dividend	(3,585)
Net revenue retained	<u>318</u>

SHARE VALUATIONS

On 30 November 1999, the middle market quotation and the net asset value per 1p Ordinary share were 54.3p and 50.8p respectively.

SUBSTANTIAL HOLDINGS IN THE COMPANY

At the date of this report the Company had been notified of the following holdings of 3% or more of the Company's issued Ordinary Share Capital:

	Ordinary Shares %
Chase Nominees Limited	4.41
Hargreaves Lansdown Nominees Limited	4.83
HSBC Bank International Limited	4.90
Lloyds Bank Stock Exchange Branch Nominees	12.47
RBSTB Nominees Limited	4.99
RBSTB Nominees Limited A/c 1781	8.69
Talbot Nominees Limited A/c 754700	5.26
Talbot Nominees Limited A/c 754850	5.06
Vidacos Nominees Limited	3.80
Vidacos Nominees Limited A/c PPTI	4.99

The above information is entered in a register maintained by the Company under the provisions of Section 211 of the Companies Act 1985. There are 622 shareholders recorded on the share register.

CORPORATE GOVERNANCE

The Combined Code was published in June 1998. The Company has complied fully since commencing trading with the provisions set down in Section 1 of the Code, except for provision A.1.2 which specifies that there should be a formal schedule of matters which are reserved for approval by the board. There is however, a management agreement between the Company and Morley Fund Management Limited which sets out the matters over which the Manager has authority. All other matters are reserved for the approval of the Board including remuneration and the review of the terms of the management agreement between the Company and Morley Fund Management Limited. Since all directors are non-executive, the Company is not required to comply with principles B.1 to B.3 of the Combined Code in respect of executive directors' remuneration.

The Company has a system of monitoring and forecasting, which incorporates Board approval of results, and aligning these to published accounts. Regular liaison meetings are held between the directors and the Investment Manager who provides regular presentations on the business operation.

The Board consists of four members, all of whom are non-executive and three of whom are independent of the Manager. The Board's responsibility to present a balanced and understandable assessment extends to interim and other price-sensitive public reports and reports to regulators as well as to information required to be presented by statutory requirements.

There is an Audit Committee and, in order to ensure its independence from the Investment Manager, the non-independent director is excluded from it. There were no meetings of the Audit Committee during the period.

Given the nature of the Board a separate nomination committee has not been established. It is the view of the Board that the appointment of new directors should be a matter of consideration by the Board as a whole. Upon appointment each director is provided with a summary of the responsibilities and duties of directors, together with relevant background information on the Company. Consistent with the recommendation of the Code of Best Practice, the Board will provide appropriate training for new directors where necessary.

GOING CONCERN

After making enquiries, the Board have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

INTERNAL CONTROL

The Board is ultimately responsible for the Company's system of internal control and reviewing its effectiveness. However, such a system can only provide reasonable and not absolute assurance against material misstatement or loss. The Company is committed to the highest standards of business conduct and seeks to maintain these standards across all of its investments.

The Company has an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve investment objectives.

The Company participates in quarterly strategic reviews, which include consideration of long term financial projections and the evaluation of investment strategies. The Board of the Company receives management accounts, being part of any system of internal financial control, on a quarterly basis prior to all Board meetings.

The Investment Manager is regulated by IMRO and, as a result, its procedures (including custodial arrangements) reflect the IMRO rules. As a matter of course, both the internal audit and compliance departments of the Investment Manager review its operations on an ongoing basis. The Investment Manager also receives a full statutory audit annually. The directors have reviewed the effectiveness of the system of internal financial controls that has been in operation during the period.

RELATIONS WITH SHAREHOLDERS

The Board and representatives of the Investment Manager are available to answer shareholders' questions at the Annual General Meeting.

INVESTMENT MANAGER

Morley Fund Management Limited (formerly Commercial Union Investment Management Limited), a subsidiary undertaking of CGU plc, acts as the Investment Manager of the Company.

YEAR 2000

The Company has implemented a plan which is intended to address the Year 2000 issue and minimise any potential impact on the Company's operations and potential to continue as a going concern.

Whilst management have taken steps to identify and assess all significant areas, there will always be the risk that an area of potential exposure has not been highlighted despite the best effort of the management to minimise such loss.

The cost of Year 2000 compliance is borne by the Investment Management Company, and therefore no costs are accrued for in the accounts.

THE DIRECTORS' RESPONSIBILITIES FOR THE ACCOUNTS

The directors are required to prepare financial statements for each accounting period which give a true and fair view of the state of affairs of the Company as at the end of the accounting period and of the total return for that period. Suitable accounting policies have to be used and applied consistently in preparing financial statements, using reasonable and prudent judgements and estimates, on the going concern basis unless it is inappropriate to presume that the Company will continue in business. The directors must state whether applicable accounting standards have been followed, with any material departures being disclosed and explained.

The directors are also responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them, to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

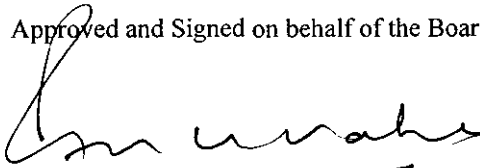
CREDITOR PAYMENT POLICY

It is the Company's policy to settle all of its investment transactions according to the settlement periods operating for the relevant markets. For other creditors it is the Company's policy to pay amounts due to them as and when they become due. As at 30 November 1999 the Company owed £Nil to suppliers in respect of invoices received but unpaid (average creditors days: Nil)

AUDITORS

A resolution to re-appoint KPMG Audit Plc as the Company's auditors will be proposed at the Annual General Meeting.

Approved and Signed on behalf of the Board



R A Whitaker
Secretary

St Helen's, 1 Undershaft

London EC3P 3DQ

Date: 19 January 2000

Auditors' report to the members of The Monthly High Income Trust PLC

We have audited the financial statements of The Monthly High Income Trust PLC on pages 12 to 22.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report, including as described on page 10 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, The Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Company is not disclosed.

We review whether the statement on pages 8 and 9 reflects the Company's compliance with those provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the Company's corporate governance procedures or its internal controls.

We read the other information contained in the annual report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the Company and the Group as at 30 November 1999 and of the total return of the Group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc *KPMG Audit Plc.*

Chartered Accountants
Registered Auditor

London

Date *19 January 2000*

Group statement of total return (incorporating the revenue account*)
for the period to 30 November 1999

	Note	Revenue £'000	Capital £'000	Total £'000
Gains on investments	2(d), 9	-	6,441	6,441
Income from investments	2(a), 3			
Franked investment income		3,818	-	3,818
Foreign income dividends		236	-	236
UK Unfranked investment income		232	-	232
		<u>4,286</u>	<u>6,441</u>	<u>10,727</u>
Other Income				
Bank interest		571	-	571
Other income		74	-	74
Total Income		<u>4,931</u>	<u>6,441</u>	<u>11,372</u>
Investment management fee	4	(382)	(381)	(763)
Other expenses	4	(177)	(44)	(221)
Net return before taxation		<u>4,372</u>	<u>6,016</u>	<u>10,388</u>
Taxation on ordinary activities	2(e), 6	(469)	-	(469)
Net return after taxation		<u>3,903</u>	<u>6,016</u>	<u>9,919</u>
Non equity minority interest		<u>-</u>	<u>(3,308)</u>	<u>(3,308)</u>
Net return to Ordinary shareholders		<u>3,903</u>	<u>2,708</u>	<u>6,611</u>
Dividends				
Dividends paid	7	(1,961)	-	(1,961)
Proposed dividends	7	(1,624)	-	(1,624)
Transfer to reserves		<u>318</u>	<u>2,708</u>	<u>3,026</u>
Return per Ordinary share	8	<u>4.87p</u>	<u>3.37p</u>	<u>8.24p</u>
Retained profit for the period				
Company		318		
Group companies		<u>0</u>		
		<u>318</u>		

* The revenue column of this statement is the profit and loss account of the Group.

The notes on pages 16 to 22 form part of these accounts.
Auditors' report – page 11.

Reconciliation of Movements in Shareholders' Funds

	1999 £'000
Net revenue after taxation	3,903
Dividends	(3,585)
Revenue retained for the period	<u>318</u>
Non-distributable capital surplus	2,708
Net addition to shareholders' funds	<u>3,026</u>
Net proceeds of issue	37,735
Shareholders' funds at 8 October 1998	<u>0</u>
Shareholders funds at 30 November 1999	<u><u>40,761</u></u>

The notes on pages 16 to 22 form part of these accounts.
Auditors' report – page 11.

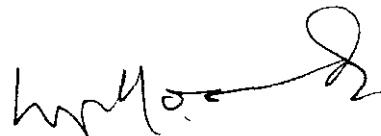
Balance Sheet

at 30 November 1999

	Note	Company		Group	
		£'000	£'000	£'000	£'000
Fixed assets					
Investments	2(c), 10		85,740		85,740
Current Assets					
Cash at bank and in hand		1,398		1,408	
Debtors	11	407		397	
		<u>1,805</u>		<u>1,805</u>	
Creditors: amounts falling due within one year	12	<u>(3,376)</u>		<u>(3,376)</u>	
Net current assets			<u>(1,571)</u>		<u>(1,571)</u>
Total assets less current liabilities			84,169		84,169
Creditors: amounts falling due after one year					
Subordinated unsecured loan from subsidiary	13	(40,100)		0	
Provision for shares to be subscribed in subsidiary undertaking	14	(3,308)		0	
		<u>(43,408)</u>		<u>0</u>	
Net assets			<u>40,761</u>		<u>84,169</u>
Share capital and reserves					
Equity shareholders funds					
Called up share capital	15		802		802
Share premium account	16		36,933		36,933
General capital reserve	16		2,964		2,964
Unrealised depreciation of investments	16		(256)		(256)
Revenue reserve	17		318		318
Total shareholder's funds			<u>40,761</u>		<u>40,761</u>
Non Equity Minority Interests	18		0		43,408
Total capital employed			<u>40,761</u>		<u>84,169</u>
Net asset value per Ordinary share	19		<u>50.8p</u>		<u>50.8p</u>

Approved by the Board on 19 January 2000
Nicholas Hood, Chairman

The notes on pages 16 to 22 form part of these accounts.
Auditors' report – page 11.


19/1/00

Group Cash Flow Statement
for the period ended 30 November 1999

		1999	
	Note	£'000	£'000
Net cash inflow from operating activities	20		3,506
Financial Investment			
Purchases of investments		(140,919)	
Sales of investments		62,947	
Net cash outflow from financial investment			(77,972)
Equity dividends paid			(1,961)
Financing			
Share issue		80,200	
Set up costs		(2,365)	
Loan from subsidiary		0	
Net cash inflow from financing			77,835
Increase in cash			1,408
Reconciliation of net cash flow to movement in net funds:			
Increase in cash			1,408
Net funds at start of period			0
Net funds at 30 November 1999			1,408

The notes on pages 16 to 22 form part of these accounts.
Auditors' report – page 11.

Notes to the Accounts

1. Basis of consolidation

Balance sheet information is presented for both the Company (MHIT) and the Group, the latter being the consolidation of MHIT and its subsidiary, MHIT Securities PLC. MHIT Securities had no revenue or expenses in the period.

The Company takes advantage of Section 230 of the companies act 1985 in not presenting its own profit and loss account.

2. Accounting policies

These accounts have been prepared on a going concern basis and under the historical cost convention modified to include the revaluation of fixed assets and in accordance with applicable Accounting Standards in the United Kingdom. The recommendations included in the Statement of Recommended Practice ("the SORP") issued by the Association of Investment Trust Companies (December 1995) have been adopted.

The principal accounting policies adopted are as follows:

(a) All dividends and any related tax credits on equity securities are taken to account on the date that the security goes ex-dividend. Income from other investments is taken to account on an accruals basis.

(b) All expenses are accounted for on an accruals basis. Investment management and administration fees payable to Morley Fund Management Limited (formerly Commercial Union Investment Management Limited) are charged equally through the revenue account and capital account. Other expenses are charged to revenue except where they directly relate to the acquisition or disposal of an investment, in which case they are added to the cost of the investment or deducted from the sale proceeds.

(c) Listed investments comprise those quoted on a recognised stock exchange. These investments have been valued at middle market prices ruling on the last business day of the period. Any profits or losses, whether realised or unrealised, arising on fixed asset investments are taken to capital reserves.

(d) Realised and unrealised capital gains and losses on investments are dealt with in capital reserves.

(e) The charge for taxation is based on the revenue for the period and takes into account taxation deferred because of short term timing differences between the treatment of certain items for taxation and accounting purposes. Advance Corporation Tax was abolished for all dividends paid after 5 April 1999.

3. Income from fixed asset investments

All income from investments was derived from listed investments.

4. Administrative expenses

	1999 £'000
Management fee (see below)	763
General expenses	152
Directors' fees (note 5)	26
Auditors' remuneration for audit work	43
	<u>984</u>

The Group does not employ any staff.

Morley Fund Management Limited (formerly Commercial Union Investment Management Limited) acts as Investment Manager to the Company under an agreement dated 27 October 1998. This agreement is subject to one year's notice of termination expiring on or at any time after 27 October 2001. The fee rate in the agreement is 0.75% per annum (plus VAT).

Under the same agreement, Morley Fund Management Limited made an administrative charge of £75,000 per annum plus VAT which is included in general expenses. At 30 November 1999 management fees of £31,250 were outstanding.

5. Directors' emoluments

	1999 £'000
In respect of services as directors:	
Borne by the company	26
Not borne by the company	7
Total emoluments	<u>33</u>

During the period, the Chairman received fees of £12,000 and the two independent directors, fees of £7,000 each.

The emoluments not borne by the Company represent the proportion of Mr D R Keen's emoluments (paid by Morley Fund Management Limited) that relate to his time spent as a director of the company.

No pension contributions were payable during the period.

6. Taxation on ordinary activities

	£'000
Tax attributable to franked investment income	<u>469</u>

There is no Corporation Tax charge for the period.

7. Dividends paid and proposed

The following dividends have been paid on the Geared Ordinary shares.

Pence per share	Date paid	Total paid £'000
0.2445	31 March 1999	196.1
0.275	30 April 1999	220.6
0.275	31 May 1999	220.6
0.275	30 June 1999	220.6
0.275	30 July 1999	220.6
0.275	31 August 1999	220.6
0.275	30 September 1999	220.6
0.275	29 October 1999	220.6
0.275	30 November 1999	220.6
<u>2.4445</u>		<u>1,960.9</u>

The following dividends are proposed to be paid on the Geared Ordinary shares.

Pence per share	Date payable	Total payable £'000
0.275	31 December 1999	220.6
1.750	31 January 2000	1,403.5
<u>2.025</u>		<u>1,624.1</u>

8. Return per Ordinary Share

Return per share is based on net revenue after tax of £3,903,000 and net capital gains of £2,708,000 divided by 80,200,000 (the number of shares in issue throughout the period).

9. Gains on investments

Company and Group	£'000
Realised gains on investments	6,697
Unrealised gains on investments	(256)
	<u>6,441</u>

10. Investments

(a) Listed investments (Company and Group)

All fixed asset investments are listed in the UK.

Movements in the period were as follows:

	£'000
Purchases at cost	142,246
Sales - proceeds	(62,947)
- realised gains	6,697
- decrease in unrealised appreciation	(256)
Closing valuation	<u>85,740</u>
 Closing book cost	 85,996
Closing unrealised appreciation	(256)
Closing valuation	<u>85,740</u>

(b) Investment in subsidiary undertaking

The company owns all of the equity of MHIT Securities PLC, an investment company incorporated in England, made up of two Ordinary shares of £1 each.

11. Debtors

	Company £'000	Group £'000
Debtors arising on sale of investments	20	20
Prepayments and accrued income	377	377
Due from subsidiary undertaking	10	-
	<u>407</u>	<u>397</u>

12. Creditors: amounts falling due within one year

Company and Group	£'000
Creditors arising on purchase of investments	1,337
Accruals and deferred income	415
Proposed dividends on Geared Ordinary shares	1,624
	<u>3,376</u>

13. Subordinated unsecured loan from subsidiary

On 15 December 1998 the Company issued £40,100,000 of non-interest bearing cumulative subordinated loan notes 2003 to its subsidiary, MHIT Securities PLC. In the event of the winding-up of the Company, obligations under the loan notes are subordinated to the creditors of the Company. Under the terms of the instrument under which loan notes are constituted, the notes are repayable on 3 December 2003 and the Company shall only repay them if:

- the repayment can be funded out of the Company's distributable profits or the proceeds of a fresh issue of shares; or
- the Company is in liquidation and the claims of its secured and unsecured creditors have been satisfied.

14. Provision for shares to be subscribed in subsidiary undertaking.

On 15 December 1998 the Company entered into a subscription agreement with its subsidiary undertaking MHIT Securities PLC (MHIT Securities). Under this agreement the Company is obliged to subscribe for sufficient Ordinary shares in MHIT Securities to satisfy any shortfall in MHIT Securities' net assets compared to the aggregate amounts due to the holders of the Zero Dividend Preference shares in MHIT Securities on the repayment of those shares on 3 December 2003.

Provision is made in the Company's accounts for obligations under the subscription agreement so as to recognise the expected total cost at a constant annual rate based on the net assets of MHIT Securities. In accordance with the Company's articles of association, provisions against the Ordinary shares to be acquired in MHIT Securities are charged to capital.

The subscription agreement provides that the Company shall pay for Ordinary shares in MHIT Securities only if:

- the subscription can be funded out of the company's distributable profits or the proceeds of a fresh issue of shares; or
- the company is in liquidation and the claims of its secured and unsecured creditors have been satisfied.

15. Share capital

	1999
Authorised:	£'000
500,000,000 Geared Ordinary shares of 1p each	<u>5,000</u>

Allotted, called-up and fully paid during the period:	
80,200,000 Geared Ordinary shares of 1p each	<u>802</u>

During the period the company allotted 80,200,000 Ordinary shares with a nominal value of 1 pence each and at a premium of 49 pence each, in consideration for cash.

16. Capital reserves

	Share premium	Unrealised depreciation of investments	Capital reserve Group/ Company	Total
	£'000	£'000	£'000	£'000
Issue of share capital	39,298	-	-	39,298
Set up costs written off	(2,365)	-	-	(2,365)
Unrealised appreciation during period	-	(256)	-	(256)
Gains on realisation of investments	-	-	6,697	6,697
Expenses	-	-	(425)	(425)
Transfer to minority interests	-	-	(3,308)	(3,308)
(Group)/Provision for shares to be subscribed in subsidiary(Company)				
Balance at 30 November 1999	<u>36,933</u>	<u>(256)</u>	<u>2,964</u>	<u>39,641</u>

17. Revenue reserve

	Company £'000	Group £'000
Balance at start of period	0	0
Retained during the period	318	318
Balance at 30 November 1999	<u>318</u>	<u>318</u>

18. Non Equity Minority Interests

	Company £'000	Group £'000
Zero dividend preference shares issued in the period	0	40,100
Accrued redemption premium	0	3,308
Non equity minority interests at the end of the period	<u>0</u>	<u>43,408</u>

The Zero Dividend Preference shares were issued by the subsidiary company on 4 December 1998 for 50 pence per share and are repayable at 74.32 pence per share on 3 December 2003.

Substantially all the proceeds of the Zero Dividend Preference shares issued by the subsidiary company have been lent to the parent under a subordinated loan, the terms of which are summarised in note 13 to the accounts. The loan is only repayable under those terms.

The parent company is obliged to subscribe for new Ordinary shares in the subsidiary but only under the terms of a subscription agreement, summarised in note 14 to the accounts.

The effect of these arrangements is that the repayment of the Zero Dividend Preference shares by the subsidiary will be financed by the repayment of the subordinated loan and the subscription of new Ordinary shares by the parent, subject to the terms of the respective agreements.

19. Net asset value per Ordinary Share

Company and Group	£'000
Total net assets attributable at start of period	37,735
Total recognised gains for the period	6,611
Dividends appropriated in the period	<u>(3,585)</u>
Total net assets attributable at 30 November 1999	<u>40,761</u>

The net asset value per share is based on net assets and on 80,200,000 shares, being the number of Ordinary shares in issue at the period end.

20. Reconciliation of net revenue before taxation to net cash inflow from operating activities

	1999 £'000
Net revenue before taxation	4,372
Increase in trade debtors	(387)
Increase in creditors	415
Tax credits on franked investment income included within income from UK companies	(469)
Capitalised expenses taken to non-distributable reserves	(425)
Net cash inflow from operating activities	<u>3,506</u>

21. Risk Assessment and Management

The Directors' strategy on the management of investment risk is driven by the Company's investment objectives, namely to provide an above average level of income for the Geared Ordinary shareholders, and achieve capital growth to at least repay the preference shareholders.

Now that the Company is fully invested in securities paying a stable level of income, its ability to generate income is not at significant risk to short term fluctuations in interest rates, or modest downturns in the economy.

The Preference shareholders of MHIT Securities PLC will receive a fixed rate of return (8.25% p.a. for original subscribers holding to redemption), and rank ahead of the Ordinary shareholders of The Monthly High Income Trust PLC in any capital distribution. This represents a capital risk for the Ordinary shareholders, which is managed by following the policy of achieving capital growth.

To achieve market growth over the life of the Preference shares, the Company is invested primarily in UK equities. Acceptance of the consequent market risk is a clear part of the Company's business as an investment trust. The risk is mitigated however, by maintaining a wide spread of investments, with no more than 5% of the portfolio invested in any one company as shown in the Fund Manager's report.

In view of the above, the Company has not undertaken any transactions in derivatives or forward contracts to hedge against interest rate, market or currency risks.

22. Contingent liabilities

There were no contingencies, guarantees or financial commitments at 30 November 1999.

23. Related party transactions

Morley Fund Management Limited provides investment management and administration services to the Company. The terms of the agreement are set out in note 4 to the accounts. Dealings with the directors are set out in the directors' report.

Company Profile

Objective

The objective is to achieve an above average level of income with some prospect of growth while at least maintaining the initial net assets of the Geared Ordinary shareholders.

Policy

The managers investment policy is value driven and based on the following selection criteria:

Undermanaged stocks based on peer group measures such as return on capital, trading margins and cash flow generation;

Undervalued stocks on either a short or long term view based on earnings and cash flow;

Out of favour stocks based on price earnings relatives and cash flow potential; or
Stocks that offer acquisition value based on discount to net assets and a sum of parts valuation.

Benchmark

The performance of the equity portfolio will be judged against a range of comparisons including the FTSE 350 High Yield Index and the Micropal UT income sector average.

Background

The Monthly High Income Trust commenced trading on 4 December 1998 with gross assets of £80.2m, before expenses. The capital structure consists of 80.2m Geared Ordinary Shares and 80.2m Zero Dividend Preference Shares both issued at 50p.

Notice of Meeting

Notice is hereby given that the 1st Annual General Meeting of the Monthly High Income Trust plc will be held on Tuesday 11 April 2000 at 12:30pm at St Helens, 1 Undershaft, London, EC3P 3DQ, to transact the following business:

Ordinary Business

1. To receive and consider the Report and Accounts for the period 8 October 1998 to 30 November 1999.
2. To re-elect Mr N Hood CBE who retires by rotation in accordance with Article 73.
3. To re-appoint KPMG Audit plc as auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next General Meeting at which accounts are laid before the Company at a remuneration to be fixed by the directors.

By order of the Board

R A Whitaker
Secretary

Date

St Helens
1 Undershaft
London EC3P 3DQ

Notes:

1. A pre-paid reply form of proxy is enclosed separately with the Report and Accounts. This form is for the sole use of Ordinary shareholders and will be used only in the event of a poll being directed or demanded.
2. To be valid the form of proxy together with the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy thereof, must reach Lloyds TSB Registrar Department not later than 12:30 p.m. on 7 April 2000.
3. Members who return completed forms are not precluded, if subsequently they wish to, from attending the Meeting and voting in person.
4. A copy of the Memorandum and Articles of Association will be available for inspection by shareholders at the Company's transfer office during business hours on any weekday (Saturdays and public holidays excluded) until the date of the Annual General Meeting and at St Helens, 1 Undershaft on Tuesday 11 April 2000 from 12:00 noon until the end of the Meeting. None of the directors have contracts of service with the Company.