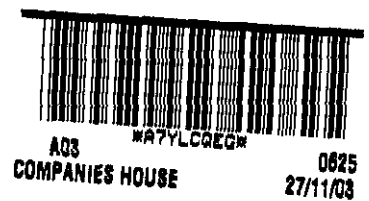


Company No. 3646931

**THE MONTHLY HIGH INCOME TRUST PLC**

**INTERIM ACCOUNTS**

**31 October 2003**



## DIRECTORY

### Directors

Mr W N Hood CBE (Chairman)  
Mr N G N Sidebottom  
Mr D R Keen

### Investment Manager

Morley Fund Management Limited

No 1 Poultry

London

EC2R 8EJ

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Morley Fund Management Limited is a subsidiary undertaking of Aviva plc.

### Fund Managers

Scott McKenzie, Roger Bade, Mark Gull

### Broker

UBS Warburg

1 Finsbury Ave

London

EC2M 2PP

### Auditors

KPMG Audit plc

8 Salisbury Square

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### Secretary & Registered Office

Aviva Company Secretarial Services Limited

St Helen's

1 Undershaft

London EC3P 3DQ

### Registrars

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Orchard Brae

Edinburgh EH4 1WQ

**Company Number: 3646931**

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## **DIRECTORS' REPORT**

The directors submit their Report and Interim Accounts for the period from 1 December 2002 to 31 October 2003.

### **PRINCIPAL ACTIVITIES**

The Monthly High Income Trust Plc, (the "company"), is an investment company within the meaning of Section 266 of the Companies 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. In light of the recent falls on the equity market, this objective might be difficult to achieve. The gearing is achieved by having Zero Dividend Preference Shares (issued by MHIT Securities PLC) which have a fixed return, the cost of which is charged to capital.

On 29 November 2001, the Company underwent a restructuring whereby the loan of £40.1m from MHIT Securities PLC to the Company was satisfied by the issue of Redeemable Preference Shares in the capital of the Company to MHIT Securities PLC. This restructuring was undertaken to enable the Company to continue to pay dividends. Under the provisions of FRS5, MHIT Securities PLC is considered to be a quasi-subsiary of the Company and so has continued to be consolidated in these accounts.

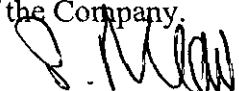
### **BOARD OF DIRECTORS**

The directors who held office during the period from 1 December 2002 to 31 October 2003 were as follows:

Mr W N Hood (Chairman)  
Mr N G N Sidebottom  
Mr D R Keen

### **INVESTMENT MANAGER**

Morley Fund Management, a subsidiary undertaking of Aviva plc, acts as the Investment Manager of the Company.

  
Approved and signed on behalf of the Board  
Aviva Company Secretarial Services Limited  
Secretary

St Helen's  
1 Undershaft  
London  
EC3P 3DQ

**UNAUDITED GROUP STATEMENT OF TOTAL RETURN**  
(incorporating the revenue account of the Group\*) for the eleven months ended 31 October 2003

Notes	11 months ended 31 October 2003		11 months ended 31 October 2002		Total £'000
	Revenue £'000	Capital £'000	Revenue £'000	Capital £'000	
(Losses)/Gains on investments	4	-	-	(18,544)	(18,544)
<b>Income from investments</b>	2(a)				
Franked investment income		2,009	2,228	-	2,228
Unfranked investment income		122	693	-	693
Overseas income		46	109	-	109
		2,177	3,030	(18,544)	(15,514)
<b>Other income</b>					
Bank interest		288	47	-	47
Other income		-	6	-	6
<b>Total income</b>		2,465	3,083	(18,544)	(15,461)
Investment management fee		(211)	(243)	(243)	(486)
Other expenses		(343)	(178)	(43)	(221)
		1,911	2,662	(18,830)	(16,168)
<b>Net return before taxation</b>		(4)	(130)	86	(44)
Taxation on ordinary activities		1,907	2,532	(18,744)	(16,212)
<b>Net return after taxation</b>	2(f)	-	-	(4,076)	(4,076)
Non-equity minority interest		1,907	2,532	(22,820)	(20,288)
Net return to Ordinary Shareholders					
<b>Dividends</b>					
Ordinary dividends paid	3	(1,444)	(2,382)	-	(2,382)
Proposed Ordinary dividends	3	(481)	(321)	-	(321)
Proposed Preferable dividends		(4)	-	-	-
<b>Transfer to reserves</b>					
Revenue reserve at 1 December		(22)	(171)	(22,820)	(22,991)
Revenue reserve at 31 October		265	394	(17,843)	(17,449)
<b>Return per Ordinary Share</b>		243	223	(40,663)	(40,440)
		2.38p	3.16p	(28.46)p	(25.30)p

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

# UNAUDITED BALANCE SHEET AT 31 October 2003

Notes	At 31 October 2003		At 30 November 2002	
	Company £'000	Group £'000	Company £'000	Group £'000
Fixed assets				
Investments				
Current assets				
Cash at bank and in hand	34,473	34,473	49,150	49,150
Debtors	21,191	21,205	4,534	4,544
	447	437	291	281
	21,638	21,642	4,825	4,825
	(998)	(994)	(490)	(486)
Creditors: amounts falling due within one year	20,640	20,648	4,335	4,339
Net current assets	55,113	55,121	53,485	53,489
Total assets less current liabilities				
Creditors: amounts falling due after one year	(19,616)	-	(15,185)	-
Provision for shares to be subscribed in MHIT Securities PLC	35,497	55,121	38,300	53,489
Net assets				
Share capital and reserves				
Called up share capital	1,203	802	1,203	802
Share premium account	-	-	-	-
General capital reserve	(38,635)	(38,639)	(19,834)	(19,838)
Unrealised (losses)/gains on investments	(3,946)	(3,946)	(19,966)	(19,966)
Special reserve	76,632	36,933	76,632	36,933
Revenue reserve	243	247	265	269
Total shareholders' funds	35,497	(4,603)	38,300	(1,800)
Non-equity minority interests	-	59,724	-	55,289
Total capital employed	35,497	55,121	38,300	53,489
Net asset value per Ordinary Share	(5.74)p	(5.74)p	(2.25)p	(2.25)p

Approved by the Board on

11 / 11

2003

Director



# **UNAUDITED GROUP CASH FLOW STATEMENT** **(for the eleven months ended 31 October 2003)**

	Note	11 months ended 31 October 2003 £'000	11 months ended 31 October 2002 £'000
Net cash inflow from operating activities	10	1,853	2,129
Taxation paid		(4)	-
Capital expenditure and financial investment			
Purchases of investments		(25,538)	(43,448)
Sales of investments		42,115	45,733
Net cash inflow from financial investment		16,577	2,285
Equity dividends paid		(1,764)	(3,465)
Increase in cash		<u>16,662</u>	<u>751</u>
Reconciliation of net cash flow to movement in net funds:			
Increase in cash		16,662	751
Net funds at 1 December		<u>4,543</u>	<u>2,465</u>
Net funds at 31 October		<u>21,205</u>	<u>3,216</u>

## NOTES TO THE ACCOUNTS

### 1. Basis of consolidation

Balance sheet information is presented for both the Company and the Group, the latter being a consolidation of the Company and MHIT Securities PLC. Under the provisions of FRS5, MHIT Securities PLC is considered to be a quasi-subsiary and so has continued to be consolidated in these accounts.

The Company's own profit and loss account is disclosed in note 11 in the accounts.

### 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 Ltd are charged equally through the revenue account and capital account. Fees incurred due to the reorganisation have been charged equally through the revenue and the 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) Transactions denominated in foreign currencies, whether of a revenue or capital nature, are translated to sterling at the rates of exchange ruling on the dates of such transactions. Revenue items accrued and other foreign currency assets and liabilities at the balance sheet date are translated to sterling at the rates of exchange ruling at that date. Exchange gains or losses arising from investment purchases and sales are dealt with in the capital reserves. All other exchange gains or losses are dealt with in the revenue account.

(f) The charge for taxation is based on net revenue for the year. Deferred tax is provided in accordance with FRS19 on all timing differences that have originated but not reversed by the balance sheet date. Deferred tax assets are only recognised to the extent that they are recoverable. The adoption of FRS19 had no impact on current or prior period results. A notional tax charge is deducted from the revenue account, and a corresponding notional tax credit added to the capital account, in respect of tax relief deemed to be obtained in respect of management fees and interest charged to capital.

### 3. Dividends Paid and Proposed

The following dividends have been paid on the Geared Ordinary Shares of the Company.

Pence per share	Reference Period	Total Paid £'000
0.20	December 2002	160.4
0.20	January 2003	160.4
0.20	February 2003	160.4
0.20	March 2003	160.4
0.20	April 2003	160.4
0.20	May 2003	160.4
0.20	June 2003	160.4
0.20	July 2003	160.4
0.20	August 2003	160.4
		<u>1443.6</u>

The following dividends are proposed to be paid on the Geared Ordinary Shares of the Company.

Pence per share	Reference Period	Total Payable £'000
0.20	September 2003	160.4
0.20	October 2003	160.4
0.20	November 2003	160.4
		<u>481.2</u>

### 4. (Losses) / Gains on Investments

	11 months ended 31 October 2003 £'000	11 months ended 31 October 2002 £'000
<b>Company and Group</b>		
Realised losses gains on investments	(14,120)	(6,958)
Unrealised gains / (losses) on investments	<u>16,020</u>	<u>(11,586)</u>
	<u>1,900</u>	<u>(18,544)</u>

## 5. Debtors

	At 31 October 2003		At 30 November 2002	
	Company £'000	Group £'000	Company £'000	Group £'000
Debtors arising on sale of investments	258	258	27	27
Prepayments and accrued income	174	174	233	233
Corporation tax recoverable	5	5	21	21
Due from MHIT Securities PLC	<u>10</u>	<u>-</u>	<u>10</u>	<u>-</u>
	<u>447</u>	<u>437</u>	<u>291</u>	<u>281</u>

## 6. Creditors: amounts falling due within one year

	At 31 October 2003		At 30 November 2002	
	Company £'000	Group £'000	Company £'000	Group £'000
Creditors arising on purchase of investments	294	294	-	-
Provision for corporation tax	-	-	-	-
Accruals and deferred income	219	219	152	152
Sundry creditors	-	-	13	13
Proposed dividends on Geared Ordinary Shares	481	481	321	321
Proposed dividends on Redeemable Preference Shares	<u>4</u>	<u>-</u>	<u>4</u>	<u>-</u>
	<u>998</u>	<u>994</u>	<u>490</u>	<u>486</u>

## 7. Share Capital

Company	At 31 October 2003 £'000	At 30 November 2002 £'000
<b>Authorised:</b>		
500,000,000 Geared Ordinary Shares of 1p each	5,000	5,000
40,100,000 Redeemable Preference Shares of 1p each	401	401
<b>Allotted, called-up and fully paid during the period:</b>		
80,200,000 Geared Ordinary Shares of 1p each	802	802
40,100,000 Redeemable Preference Shares of 1p each	<u>401</u>	<u>401</u>
	<u>1203</u>	<u>1203</u>

On 29 November 2001, the Company passed a special resolution authorising an increase in the share capital of the Company from £5,000,000 to £5,401,000 by the creation of 40,100,000 Redeemable Preference Shares of 1p each. The shares were issued at 100p each

to MHIT Securities PLC. A fixed cumulative preferential dividend at the rate of 0.01 pence per share is payable each year expiring on 2 December with the first payment being on a pro-rata basis.

The holders of the Redeemable Preference Shares have the right to receive notice of general meetings but only have the right to vote upon any resolution affecting the rights of those shares or upon any resolution to wind up the Company on 3 December 2003.

The Redeemable Preference Shares are repayable at 100 pence per share on 3 December 2003.

The two Ordinary Shares in MHIT Securities PLC, previously held by the Company, are now held by Nigel Sidebottom and David Keen (two directors of the Company).

As MHIT Securities PLC has been treated as a quasi-subsiary, The Monthly High Income Trust PLC's obligation under the subscription agreement of £19,616,000 (30 November 2002: £15,185,000) and the non-equity shareholders' funds of £40,104,000 (30 November 2002: £40,104,000) have been eliminated on consolidation and replaced by non-equity minority interests of £59,724,000 (30 November 2002: £55,289,000). Finance costs of £4,431,000 (11 months ended 31 October 2002: £4,076,000) have been transferred to non-equity minority interests in the Group Statement of Total Return. The Redeemable Preference Dividends of £4,010 paid to MHIT Securities PLC have also been transferred to non-equity minority interests in the Group Statement of Total Return. Immaterial adjustments to interest income and tax have been made in respect of MHIT Securities PLC.

Group	At 31 October 2003 £'000	At 30 November 2002 £'000
<b>Authorised:</b>		
500,000,000 Geared Ordinary Shares of 1p each	5,000	5,000
<b>Allotted, called-up and fully paid during the period:</b>		
80,200,000 Geared Ordinary Shares of 1p each	802	802

## 8. Capital Reserves

Company	Share premium £'000	Unrealised depreciation of investments £'000	Capital reserve £'000	Special reserve £'000	Total £'000
Balance at 1 December 2002	-	(19,966)	(19,834)	76,632	36,832
Unrealised depreciation during year	-	16,020	-	-	16,020
Loss on realisation of investments	-	-	(14,120)	-	(14,120)
Taxation	-	-	-	-	-
Expenses	-	-	(250)	-	(250)
Provision for shares to be subscribed in MHIT Securities PLC	-	-	(4,431)	-	(4,431)
Balance at 31 October 2003	-	(3,946)	(38,635)	76,632	34,051

On 21 December 2001, the Company obtained High Court approval to sanction the cancellation of its share premium account, amounting to £76.632 million, and the establishment of a special reserve for the equivalent value. This special reserve will be treated as a distributable reserve for the purpose of a repurchase of Ordinary Shares in the Company.

Group	Share premium £'000	Unrealised depreciation of investments £'000	Capital reserve £'000	Special reserve £'000	Total £'000
Balance at 1 December 2002	-	(19,966)	(19,838)	36,933	(2,871)
Unrealised depreciation during year	-	16,020	-	-	16,020
Loss on realisation of investments	-	-	(14,120)	-	(14,120)
Taxation	-	-	-	-	-
Expenses	-	-	(250)	-	(250)
Provision for shares to be subscribed in MHIT Securities PLC	-	-	(4,431)	-	(4,431)
Balance at 31 October 2003	-	(3,946)	(38,639)	36,933	(5,652)

#### 9. Non Equity Minority Interests

	At 31 October 2003		At 30 November 2002	
	Company £'000	Group £'000	Company £'000	Group £'000
Zero Dividend Preference Shares (including Redeemable Preference Shares dividend)	-	40,108	-	40,104
Accrued Redemption Premium	-	19,616	-	15,185
Non Equity Minority Interests	-	59,724	-	55,289

On 29 November 2001 the terms of the Loan Note agreement between the Company and MHIT Securities PLC were changed. The terms were amended so that MHIT Securities PLC agreed to release the Company from its liability to pay £40,100,000 to MHIT Securities PLC in respect of the Loan Notes in consideration of the issue to MHIT Securities PLC of 40,100,000 Redeemable Preference Shares of 1p each in the capital of the Company at a price equal to £1 each.

The terms of the Subscription agreement were also amended so that, upon winding up, the Company will subscribe for sufficient Ordinary Shares in MHIT Securities PLC such that, when added to any amounts received by MHIT Securities PLC as holders of the Redeemable Preference Shares in the Company and any amounts received from issuing additional MHIT Securities Ordinary Shares, the total amount equals the amount receivable by the holders of the Zero Dividend Preference Shares in MHIT Securities PLC.

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

	11 months ended 31 October 2003	11 months ended 31 October 2002
	£'000	£'000
Net revenue before taxation	1,911	2,662
(Increase) / decrease in trade debtors	(231)	277
Decrease / (increase) in prepayments and accrued income	76	92
Increase / (Decrease) in trade creditors	294	(471)
Increase / (Decrease) in accruals and deferred income	53	(137)
Tax suffered on overseas income	-	(8)
Capitalised expenses taken to non-distributable reserves	(250)	(286)
Net cash inflow / (outflow) from operating activities	<u>1,853</u>	<u>2,129</u>

**11. Statement of Total Return for The Monthly High Income Trust PLC**

For the eleven months ended 31 October 2003

	11 months to 31 October 2003			11 months to 31 October 2002		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
(Losses)/Gains on investments	-	1,900	1,900	-	(18,544)	(18,544)
<b>Income from investments</b>						
Franked investment income	2,009	-	2,009	2,228	-	2,228
Unfranked investment income	122	-	122	693	-	693
Overseas income	46	-	46	109	-	109
	<u>2,177</u>	<u>1,900</u>	<u>4,077</u>	<u>3,030</u>	<u>(18,544)</u>	<u>(15,514)</u>
<b>Other income</b>						
Bank interest	288	-	288	47	-	47
Other income	-	-	-	6	-	6
<b>Total income</b>	<u>2,465</u>	<u>1,900</u>	<u>4,365</u>	<u>3,083</u>	<u>(18,544)</u>	<u>(15,461)</u>
Investment management fee	(211)	(211)	(422)	(243)	(243)	(486)
Other expenses	(343)	(39)	(382)	(178)	(43)	(221)
Finance costs	-	(4,431)	(4,431)	-	(4,076)	(4,076)
<b>Net return before taxation</b>	<u>1,911</u>	<u>(2,781)</u>	<u>(870)</u>	<u>2,662</u>	<u>(22,906)</u>	<u>(20,244)</u>
Taxation on ordinary activities	(4)	-	(4)	(130)	86	(44)
<b>Net return to Ordinary Shareholders</b>	<u>1,907</u>	<u>(2,781)</u>	<u>(874)</u>	<u>2,532</u>	<u>(22,820)</u>	<u>(20,288)</u>
<b>Dividends</b>						
Dividends paid	(1,444)	-	(1,444)	(2,382)	-	(2,382)
Proposed Dividends on Redeemable Preference Shares	(4)	-	(4)	-	-	-
Proposed dividends on Ordinary Shares	(481)	-	(481)	(321)	-	(321)
<b>Transfer to reserves</b>	<u>(22)</u>	<u>(2,781)</u>	<u>(2,804)</u>	<u>(171)</u>	<u>(22,820)</u>	<u>(22,991)</u>
Reserves at 1 December	265	(39,800)	(39,535)	394	(17,843)	(17,449)
<b>Reserves at 31 October</b>	<u>243</u>	<u>(42,581)</u>	<u>(42,339)</u>	<u>223</u>	<u>(40,663)</u>	<u>(40,440)</u>
<b>Return per Ordinary Share</b>	2.38p	(3.47)p	(1.09)p	3.16p	(28.46)p	(25.30)p

## **COMPANY PROFILE**

### **Objective**

The objective at launch was to achieve an above average level of income with some prospect of growth while at least maintaining the initial net assets of the holders of geared ordinary shares in the capital of The Monthly High Income Trust PLC ("Ordinary Shares").

In light of the recent falls in the market and the fact that the planned winding up date of the Company is 3 December 2003, this objective will be difficult to achieve.

### **Policy**

The Manager's investment policy is a pragmatic approach which focuses on the twin objectives of investing in shares offering some growth prospects, along with income distributions. This approach aims to create a balanced portfolio of investments from both the high yielding and growth orientated sectors in the UK market.

### **Benchmark**

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

### **Background**

The Monthly High Income Trust PLC (the "Company") commenced trading on 4 December 1998 with gross assets of £80.2m, before expenses. Its initial structure included a wholly owned subsidiary, MHIT Securities PLC (collectively, the "Group").

### **Capital Structure**

The capital structure of the Group consists of 80.2m Ordinary Shares and 80.2m Zero Dividend Preference Shares in the capital of MHIT Securities PLC ("Zero Dividend Preference Shares"). The Ordinary Shares and Zero Dividend Preference Shares were both issued at 50p. The Group has no bank borrowings or other debt. The planned winding up date of the Group is 3 December 2003.

The Zero Dividend Preference Shares were issued by MHIT Securities PLC on 4 December 1998. They were originally repayable on 3 December 2003 at 74.32 pence per share. This has subsequently been increased to 75.0376 pence per share. If there are insufficient assets of The Monthly High Income Trust PLC at the time, the Zero Dividend Preference Shares will see a shortfall in their return. The Zero Dividend Preference Shares have no entitlements to dividends and carry no voting rights, except for matters which concern their rights.

The Ordinary Shares were issued at 50p each and carry voting rights. The intention is to pay them a high yield in the form of monthly dividends. They are also entitled to any residual capital in the Company.

### **November 2001 Reorganisation**

In November 2001, the Company and MHIT Securities PLC underwent a reorganisation of each company's capital structure. As part of the reorganisation, the Company issued 40,100,000 new unlisted redeemable preference shares at 100p each to MHIT Securities PLC in consideration for the release of liabilities owing by the Company to MHIT Securities PLC under unsecured subordinated loan notes.

Given that a subsidiary cannot hold shares in its parent company, the two ordinary shares the Company held in the capital of MHIT Securities PLC have been transferred to Mr DR Keen and Mr NGN Sidebottom, two of the directors of the Company. As such, MHIT Securities PLC is now considered to be a quasi-subsiidiary of the Company under UK Accounting Standards (FRS5) and continues to be consolidated in these accounts.

**Management Company**

The investment manager is Morley Fund Management Limited, a subsidiary of Aviva plc. Morley Fund Management manages over £100 billion of investments of insurance funds, pension funds, unit trusts and investment trusts.

**PEP/ISA Status**

The Company qualifies for PEP/ISA investments.

**AITC**

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