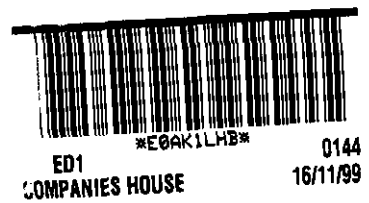


Company number: 3646931

**THE MONTHLY HIGH INCOME TRUST PLC**  
**INITIAL ACCOUNTS FOR THE PERIOD**  
**8 OCTOBER 1998 TO 30 SEPTEMBER 1999**



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## **THE MONTHLY HIGH INCOME TRUST PLC**

### **DIRECTORS' REPORT**

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

The Board has pursued the investment objective of providing shareholders 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.

### **BOARD OF DIRECTORS**

The directors who held office during the period from 4 December 1998 to 30 September 1999 were as follows:

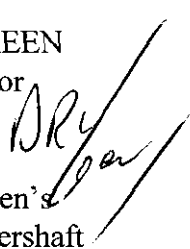
Mr W N Hood (Chairman)  
Lord McGowan  
Mr N G N Sidebottom  
Mr D R Keen

### **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.

Approved and signed on behalf of the Board

D R KEEN  
Director

  
St Helen's  
1 Undershaft  
London EC3P 3DQ

## THE MONTHLY HIGH INCOME TRUST PLC

Statement of total return (incorporating the revenue account\*) for the ten months ended 30 September 1999.

		10 Months ended 30 September 1999		
	Notes	Revenue £'000	Capital £'000	Total £'000
<b>Gains on investments</b>	7	-	6,456	6,456
<b>Income from investments</b>	1(a) & 2			
Franked investment income		3,238	-	3,238
Foreign income dividends		219	-	219
UK Unfranked investment income		213	-	213
		<u>3,670</u>	<u>6,456</u>	<u>10,126</u>
<b>Other Income</b>				
Bank interest		567	-	567
Other income		<u>74</u>	<u>-</u>	<u>74</u>
<b>Total Income</b>		<u>4,311</u>	<u>6,456</u>	<u>10,767</u>
Investment management fee	3	(319)	(319)	(638)
Other expenses		(125)	(33)	(158)
<b>Net return before taxation</b>		<u>3,867</u>	<u>6,104</u>	<u>9,771</u>
Taxation on ordinary activities	4	(403)	-	(403)
<b>Net return after taxation</b>		<u>3,464</u>	<u>6,104</u>	<u>9,568</u>
Non equity minority interest		-	(2,757)	(2,757)
Net return to ordinary shareholders		<u>3,464</u>	<u>3,347</u>	<u>6,811</u>
<b>Dividends</b>				
Dividends paid	5	(1,519)	-	(1,519)
Proposed dividends	5	(662)	-	(662)
Transfer to reserves		<u>1,283</u>	<u>3,347</u>	<u>4,630</u>
<b>Return per share</b>	6	4.32p	4.17p	8.49p

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

# THE MONTHLY HIGH INCOME TRUST PLC

Balance Sheet at 30 September 1999

	Note	£'000	£'000
<b>Fixed assets</b>			
Investments	1(c) & 8		85,797
<b>Current Assets</b>			
Cash at bank and in hand		1,760	
Debtors	9	5,526	
		<u>7,286</u>	
<b>Creditors: amounts falling due within one year</b>	10	(7,861)	
		<u></u>	
<b>Net current assets</b>			(575)
<b>Total assets less current liabilities</b>			<u>85,222</u>
<b>Creditors: amounts falling due after one year</b>			
Subordinated unsecured loan from subsidiary	11	(40,100)	
Provision for shares to be subscribed in subsidiary undertaking	12	(2,757)	
		<u></u>	(42,857)
<b>Net assets</b>			<u><u>42,365</u></u>
<b>Share capital and reserves</b>			£'000
Called up share capital	13		802
Capital reserves			
Share premium account	14	36,933	
General capital reserve	14	3,341	
Unrealised appreciation of investments	14	<u>6</u>	
			40,280
Revenue reserve			1,283
<b>Total shareholder's funds</b>			<u><u>42,365</u></u>
Net asset value per share			<u><u>52.8 p</u></u>

Approved by the Board on

October 1999

**THE MONTHLY HIGH INCOME TRUST PLC**  
**NOTES TO THE ACCOUNTS**

**1. Accounting Policies**

These accounts have been prepared 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) Deferred taxation, calculated on the liability method, is provided on items which are recognised in different periods for taxation and accounting purposes, to the extent that the directors consider that the liability or asset will crystallise in the foreseeable future.

**2. Income from fixed asset investments**

All income from investments was derived from listed investments.

**3. Investment Management Fee**

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).

**4. Taxation on Ordinary Activities** **£'000**

Tax attributable to franked investment income 403

**5. Dividends Paid and Proposed**

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

Pence per share	Date payable	Total payable £'000
0.2445	31 March 1999	196.0
0.275	30 April 1999	220.5
0.275	31 May 1999	220.5
0.275	30 June 1999	220.5
0.275	30 July 1999	220.5
0.275	31 August 1999	220.5
0.275	30 September 1999	220.5
		<u>1,519</u>

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

Pence per share	Date payable	Total payable £'000
0.275	29 October 1999	220.5
0.275	30 November 1999	220.5
0.275	31 December 1999	220.5
		<u>661.5</u>

**6. Return per Share**

Return per share is based on net revenue after tax of £3,464,000 and net capital gains of £3,347,000 divided by 80,200,000 (the number of shares in issue throughout the period).

**7. Gains on Investments** **£'000**

Realised gains on investments	6,450
Unrealised gains on investments	6
	<u>6,456</u>

## 8. Investments

### (a) Listed investments

All fixed asset investments are listed in the UK. Movements in the period were as follows:

	£'000
Purchases at cost	134,374
Sales - proceeds	(55,033)
- realised gains	6,450
- Increase in unrealised appreciation	6
Closing valuation	<u>85,797</u>
Closing book cost	85,791
Closing unrealised appreciation	6
Closing valuation	<u>85,797</u>

### (b) Investment in subsidiary undertaking

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

## 9. Debtors

	£'000
Debtors arising on sale of investments	4,895
Prepayments and accrued income	631
	<u>5,526</u>

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

	£'000
Creditors arising on purchase of investments	6,953
Accruals and deferred income	246
Proposed dividends on Geared Ordinary shares	662
	<u>7,861</u>

## 11. 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.

## **12. 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.

## **13. Share Capital**

Authorised:	£'000
500,000,000 Geared Ordinary shares of 1p each	<u>5,000</u>
Alotted, called-up and fully paid:	
80,200,000 Geared Ordinary shares of 1p each	<u>802</u>

## 14. Capital Reserves

	Share premium	Unrealised appreciation of investments	General capital reserve	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	-	6	-	6
Gains on realisation of investments	-	-	6,450	6,450
Expenses	-	-	(352)	(352)
Provision for shares to be subscribed in subsidiary	-	-	(2,757)	(2,757)
Balance at 30 September 1999	36,933	6	3,341	40,280

**REPORT OF THE AUDITOR TO THE DIRECTORS**  
**OF THE MONTHLY HIGH INCOME TRUST PLC**

Pursuant to section 273(4) of the Companies Act 1985.

We have audited the initial accounts of The Monthly High Income Trust PLC on pages 3 to 9

**Respective responsibilities of directors and auditor**

You are responsible for the preparation of the initial accounts. It is our responsibility to form an independent opinion, based on our audit, of those initial accounts and to report our opinion to you.

**Basis of 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 initial accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the initial accounts, and of whether the accounting policies are appropriate to the company'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 initial accounts 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 initial accounts.

**Opinion**

In our opinion the initial accounts for the period from 8 October 1998 to 30 September 1999 have been properly prepared within the meaning of section 273 of the Companies Act 1985 except for such matters as are not material for determining, by reference to the items mentioned in section 270(2) of that Act, whether the distribution would contravene section 265.

KPMG Audit Plc *KPMG Audit Plc*

Chartered Accountants

Registered Auditor

London

Date *11 November 1999*