

Henderson High Income Trust plc  
and Henderson High Income Trust Securities plc

Report & Accounts for the year ended  
31 December 2002



# Henderson High Income Trust plc and Henderson High Income Trust Securities plc

## Contents

### **Directors' Review**

- 1 Group Profile
- 2 Directors and Management
- 3 Financial Highlights, Performance, Dividend Information and Payment Dates
- 4 Chairman's Statement

### **Investment Review**

- 5-7 Investment Review
- 8-9 Investments: Fixed Interest and Equities
- 10 Classification of Investments

### **Henderson High Income Trust plc: Statutory Accounts**

- 11-12 Directors' Remuneration Report
- 13-16 Report of the Directors
  - 17 Statement of Directors' Responsibilities
- 17-19 Corporate Governance
  - 20 Report of the Independent Auditors
  - 21 Group Statement of Total Return
  - 22 Group and Company Balance Sheets
  - 23 Group Cash Flow Statement
- 24-32 Notes to the Accounts

### **Henderson High Income Trust Securities plc: Statutory Accounts**

- 33-35 Report of the Directors
  - 35 Statement of Directors' Responsibilities
  - 36 Report of the Independent Auditors
  - 37 Statement of Total Return
  - 38 Balance Sheet
- 39-40 Notes to the Accounts

### **Shareholder Information**

- 41-42 Henderson High Income Trust plc:
  - Notice of Annual General Meeting
- 43 Ten Year Record
- 43 A Brief History
- 44-45 General Shareholder Information
  - 46 Analysis of Shareholders
  - 47 Directors and other Information
  - 48 Glossary of Terms
- Inside back cover Share Plan and ISA

Henderson High Income Trust plc invests in a prudently diversified selection of both well known and smaller companies to provide a high income stream and prospects of capital growth.

Investment strategy	Approximately three quarters of the Company's assets are invested in ordinary shares of listed companies with the balance in listed fixed interest stocks. The selection process seeks to identify companies with strong balance sheets and dividends. There is a focus on well-managed companies whose qualities may have been temporarily overlooked and which offer potential for capital appreciation over the medium term.
Potential for growth	The net asset value total return of the Company over five years is 16.1% (source: AITC Services Limited).
Independent board of directors	The directors, all of whom are independent of the Investment Manager, meet at least 6 times a year to consider investment strategy and monitor performance.
Shares easy to buy	Details of how shares and units can be bought through the Henderson Investment Trust Share Plan and the Henderson ISA are given on the inside back cover.

## The Group

### Henderson High Income Trust plc

This is the 'Parent' company within the Group. Issued share capital consists of 55.4 million ordinary shares of 5p each.

### Henderson High Income Trust Securities plc

This is the 'Subsidiary' company within the Group. Issued share capital consists of 4 ordinary shares of 50p each (owned entirely by the Parent) and 52.6 million zero dividend preference shares of 50p each.

## Share Characteristics

The **ordinary shares** of each company are entitled to any income distributions paid by the company to which they relate (i.e. dividend payments). On a winding up, they confer an entitlement to all the undistributed net income and, in relation to the ordinary shares within the Subsidiary, rank for payment of capital after the zero dividend preference shareholders have been paid their entitlement.

The **zero dividend preference shares** of the Subsidiary offer a predetermined growth in the capital entitlement of 50p per share from 17 August 2000, subject to the company having sufficient assets available. This increases at the annual rate of 8.2%, compounded daily, to a final preferential entitlement of 74.87p on winding up on 30 September 2005. They have no rights to any income distributions.

## Directors

**W D Eason** (Chairman) (age 53) joined the Board in 1989 and became Chairman on 1 May 2002. He is Chief Investment Officer of Laing & Cruickshank Investment Management Limited and a director of OQ plc.



**P C J Dalby** (age 54) joined the Board in April 1997 following the merger with Henderson Highland Trust plc, of which he was a director from 1990. He is a director – Cazenove Fund Management.

**C Dunkerley** (age 51) joined the Board in 1989. Previously, he was a Senior Private Banker with Coutts & Co. He is now a director of Dunkerley Financial Planning Limited.

**The Rt Hon Sir John Stanley MP** (age 61) joined the Board in April 1997 following the merger with Henderson Highland Trust plc, of which he was a director from 1990. He is a non-executive director of Fidelity Japanese Values PLC and a member of the AITC Representative Committee.

All directors are independent, non-executive and members of the audit, management engagement and nominations committees chaired by William D Eason.

All directors sit on the board of the Subsidiary, Henderson High Income Trust Securities plc.

## Management



**Alex Crooke** (age 33) is the Portfolio Manager.

**James Henderson** (age 41) is the Deputy Portfolio Manager.

**John Ellman-Brown** (age 44) acts as Company Secretary on behalf of Henderson Secretarial Services Limited, the corporate Company Secretary.

## Financial Highlights

Per ordinary share	31 December 2002	31 December 2001	% Change
<b>Net asset value</b>	<b>94.7p</b>	127.6p	-25.8
<b>Market price</b>	<b>97.5p</b>	131.3p	-25.7
<b>Market price (unit)*</b>	<b>161.8p</b>	195.8p	-17.4
<b>Earnings</b>	<b>9.95p</b>	9.58p	+3.9
<b>Annual dividend</b>	<b>9.90p</b>	9.90p	–

\*Each unit comprises one ordinary share of 5p in Henderson High Income Trust plc and one zero dividend preference share of 50p in Henderson High Income Trust Securities plc.

## Performance

Market Price and Assets

Total return (with net dividends reinvested)	1 Year %	3 Years %	5 Years %	10 years %
<b>Market price per ordinary share*</b>	(18.9)	–	–	–
<b>Net asset value per ordinary share*</b>	(19.2)	–	–	–
<b>Market price per unit**</b>	(12.6)	25.3	32.3	138.9
<b>Net asset value per unit**</b>	(10.6)	1.7	16.1	126.7
<b>FTSE All-Share Index†</b>	(22.7)	(36.9)	(10.9)	92.4
<b>FTA Government All Stocks Index†</b>	9.3	22.4	44.3	133.3

\*Source: AITC Services Limited.

†Source: Datastream.

\*\*Prior to 16 August 2000, ordinary shares of 25p each.

## Performance

Dividends

Dividend yield at 31 December	2002 %	2001 %
<b>Henderson High Income Trust plc*</b>	<b>10.2</b>	7.5
<b>FTSE All-Share Index†</b>	<b>3.6</b>	2.6
<b>FTA Government All Stocks Index†</b>	<b>4.4</b>	4.9

†Source: Datastream.

\*Ordinary shares of 5p each.

## Dividend Information and Payment Dates

A fourth interim dividend of 2.475p per ordinary share (including the ordinary shares held within units) for the year ended 31 December 2002 will be paid on 30 April 2003 to shareholders registered on 21 March 2003. The shares will be quoted ex-dividend from 19 March 2003.

Details of the dividends paid and declared for the year ended 31 December 2002 are given in the Group Statement of Total Return on page 21.

First interim payable 31 July

Second interim payable 31 October

Third interim payable 31 January

Fourth interim payable 30 April

# Chairman's Statement



William Eason

## Assets and Performance

Stockmarkets have been particularly depressed since the half-year, as a number of factors have curbed investor sentiment towards equities. Against a backdrop of sluggish economic and corporate profits, deflation fears and ultimately the risk of war in Iraq, investment returns have been very poor. In the UK, we have seen additional pressure as life assurance companies have been forced to sell equities to correct solvency margins. Equities have fallen for the third year running, leaving valuations at historically low levels.

Over the year the Company's ordinary shares registered a negative net asset value total return of 19.2%, a marginally better result than the 22.7% fall in the FTSE All-Share Index. The units produced a better outcome; the net asset value total return only fell 10.6%, assisted by the performance of the zero dividend preference shares.

Our management fee arrangement with Henderson Global Investors was reviewed at the end of the year and we have negotiated changes to the arrangement as outlined on pages 14 and 15. The new fee incorporates a lower basic management fee and a capped performance related fee.

## Dividends

The Board has declared an unchanged fourth interim dividend of 2.475p per ordinary share, making a total of 9.90p for the year.

There have been a number of companies that have cut dividends over the last year and the outlook for dividends remains mixed. The Board's ability to increase the Company's dividends will depend on an increase in income from our investments. The Board reviews the level of distributions and the income generated by the portfolio regularly and efforts are always made to minimise the amount of income absorbed by costs. The Board intends to continue the present level of distributions in the current year and has considerable revenue reserves to offset any shortfall during 2003.

## The Board

We are looking to expand the Board of your Company. It is our current intention to appoint at least one new director but we are mindful of the outcome of both the Higgs and the AITC reviews of investment trust directors. These reviews are very wide ranging and seek to maintain the independence of directors from the investment management company. Until the recommendations of these reviews are clear it may prove difficult to make an appointment but I look forward to keeping you up to date with progress later in the year.

## Prospects

There are many uncertainties troubling investors, particularly the situation surrounding Iraq. A resolution should soon become apparent, allowing investors to concentrate on the economic prospects where I believe positive, albeit slow, progress is occurring. The lowest interest rates for 40 years, combined with depressed valuations, have already sparked a number of financial bids, including Safeway and Six Continents. Your Company holds both of these shares as investments; I expect more bids will follow if share prices do not recover in the short term.

William Eason  
Chairman  
5 March 2003

# Investment Review



Alex Crooke

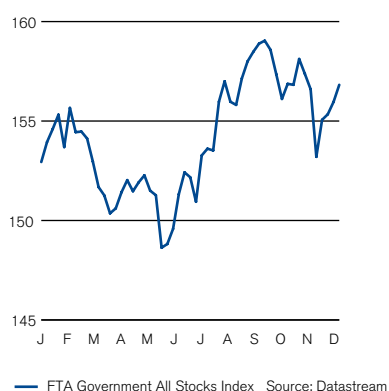
## Investment Policy and Process

The shares held in the portfolio are chosen for their combination of income and growth prospects. The Investment Manager is charged to deliver a sustainable stream of growing income, at the same time as seeking to grow the net assets of the Company. The portfolio contains both bonds and equities to deliver a high level of income and long-term growth, ahead of that achieved in a building society, without taking undue risk. The portfolio is structured to reflect the broad mix of companies within the UK stockmarket, with no dominant exposure to any one economic sector.

The portfolio is diverse, having over 100 investments. This is to ensure that no single holding puts at risk the sustainability of the income generated by the portfolio. Investments are selected with an eye to the long-term value and the growth prospects of the business. The very best opportunities are often found when a company is out of favour and credit is not given for a change in its fortunes, but these do not come up all that often.

Using the economic, industry specific and quantitative research available to all clients of Henderson Global Investors, the Investment Manager focuses on themes and sectors of the market deemed appropriate for each stage of the economic cycle. The aim is to achieve consistent long-term performance.

### UK Gilts: 2002 Price Performance

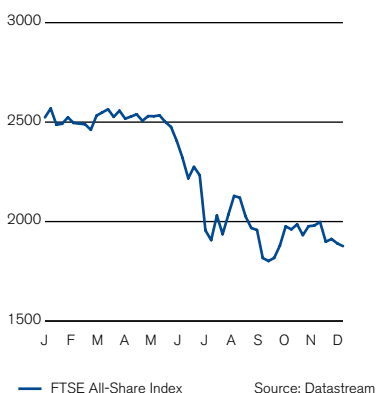


### Review of the year to 31 December 2002

When I came to write my investment review, I briefly re-read my report from last year's annual accounts. It is uncanny to note that so many comments could equally apply to the current situation: falling share prices, prospects of war (Iraq now instead of Afghanistan), economies poised to grow but industrial production still sluggish. The year as a whole was a tale of two very different halves. Gentle economic recovery in the first half, where sentiment was improving but with stock markets flat. However, the second half of the year saw a dramatic fall in share prices, sparked by continuing accounting scandals and as the situation in Iraq worsened and investors took flight.

There were few safe havens in the market; only defensive sectors such as tobacco, water and electricity were attractive to investors. Growth stocks were again best avoided but the worst area was cyclicals where companies tend to be too highly geared and demand is weak. The selling pressure in the final quarter of the year was focused in the index futures market, resulting in pressure on the largest and liquid shares in the market. This pressure continued into January, when there was no hiding place for investors, other than cash.

### UK Equities: 2002 Share Price Performance



The Bank of England has been frustrated in reducing interest rates by the strong trends in consumer spending and the housing market. Arguably real interest rates are at a high level, which has led to a strengthening in sterling against the Euro and further pain for manufacturing companies. The Government has kept public spending at a high level, creating jobs and pumping money into the economy. The fund raising for this public spending will be fairly neutral in the first year, with tax increases being offset by wage inflation. However there are longer-term worries should the public sector borrowing requirement begin to balloon. The economy has showed only the most tentative signs of recovery and remains very prone to external shocks.

Not surprisingly, given the UK life assurance companies switching their holdings of equities to fixed interest, the market for Government stocks was very positive.

# Investment Review

continued

## The 10 largest equity investments at 31 December 2002 were:

1. Gallaher
2. BP
3. National Grid
4. Royal Bank of Scotland
5. Shell Transport & Trading
6. GlaxoSmithKline
7. British American Tobacco
8. HBOS
9. Lloyds TSB
10. Barclays Bank

There was limited issuance and demand was strong throughout the year. The market for corporate bonds was again mixed. The rating agencies were quick to downgrade companies earlier in the year and the market in sub-investment grade bonds disappeared as liquidity dried up. Towards the end of the year, there was a brief rally but not of enough strength to end the year up.

### Portfolio Activity

The portfolio is geared to generate the high levels of income that are distributed as dividends. Some of this gearing is structural, relating to the zero dividend preference shares, whilst some is in the form of bank borrowing. We have a degree of flexibility in the bank borrowing and endeavour to avoid restrictive covenants or fixed borrowing at high interest rates. In borrowing weekly through the year, we have benefited from the lowest interest rates for over 40 years. The majority of the borrowing is matched by investments in corporate bonds, leaving the equity portfolio effectively geared 38% at the year-end.

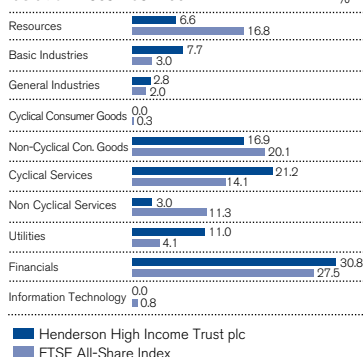
As a defensive measure the portfolio's exposure to bonds was increased to over 30% earlier in the year but has since declined to 28.3%. The decline is partly due to the opportunity to purchase high yielding equities that have fallen in value but also we have endeavoured to reduce the holdings of telecommunication companies' bonds. Corporate bonds from Energis and Orange were sold to invest in bonds from better credit worthy companies such as Daily Mail & General Trust and Pearson.

There has been a noticeable reduction in the exposure to the banking sector, from 14.4% of the portfolio to 10.1% at the year-end. The sector has enjoyed increasing earnings for a number of years but we felt that prospects were waning. Those banks with life assurance operations such as Abbey National and Lloyds TSB have experienced solvency problems, resulting in being forced to inject increasing capital into these operations. Elsewhere cost growth has been difficult to contain at a time when bad debts and margin pressure have reappeared. We made a number of sales throughout the year, including Barclays and Lloyds TSB. Valuations may have finally found a base, while expectations are low which could well signal a good time to think of returning to the sector.

The portfolio has typically contained large holdings of utilities but in recent years these have been reduced. Harsh regulatory reviews and tight dividend cover ratios have reduced the attractiveness of the sector. However in difficult stock markets, investors value highly the dependable earnings and dividends of water and electricity companies. With this in mind we increased our holdings, purchasing companies such as Severn Trent, United Utilities and Kelda. The holding of Scottish & Southern performed particularly well so that it became very expensive and late in the year we switched it into Scottish Power on a far lower rating but with similar prospects.

It has been a good year for underwriting and the Company has earned £63,000 in underwriting fees. We review carefully each offer of underwriting and judge whether it is in our interests to participate. Often the fees do not justify the risk. However, when companies need certainty of funds for acquisitions or to guarantee

**Sector Analysis of the Equity Portfolio as at 31 December 2002**

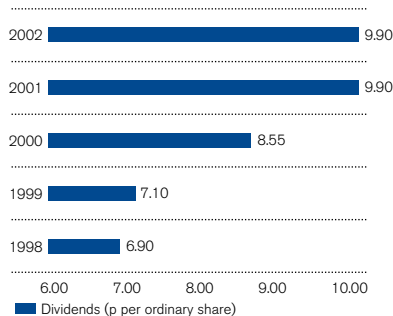


Source: Henderson Global Investors

# Investment Review

continued

## Henderson High Income Trust plc Dividend increases over 5 years



James Henderson

debt obligations then the fees can be very large. Some of the issues we have underwritten over the past year include Imperial Tobacco, Kingfisher, Legal & General and Hiscox. We expect that there will be further opportunities to underwrite new issues of shares, forming a useful additional form of income.

A positive sign to the market is that takeover bids from financial backers have returned. Of particular note is the bid for Safeway, where at one stage there were six parties indicating their willingness to bid. Recently there has been an approach to Six Continents and there are a number of bids outstanding for smaller companies. It should be seen as a positive catalyst for the stockmarket if managements are willing to take their companies private and venture capitalists see better returns buying companies at significant premiums than holding cash. A consequence of the low inflation/low growth economy has been aggressive cost cutting to maintain profits. When this gets exhausted there is little way to grow revenue other than seeking to buy your competitors. Given the low cost of borrowing, we expect to see further increases in corporate activity if shares do not recover from their depressed levels.

We have made an initial investment in a European property company called Rodamco Europe, listed on the Amsterdam stock exchange. Property companies in Holland can seek status as a tax advantaged REIT, whereby all their investment income is tax-free provided that the company distributes 95% of its income to shareholders. As a result we hold shares in a very high yielding investment (6.7% at the year end), with exposure to the fast growth in out of town shopping centres across Europe. The same trends that have led to the popularity of large retail shopping centres outside major cities in the UK and America are only just starting to occur in Europe.

### Prospects

It is still our central case that a sluggish economic recovery is underway but that evidence is being clouded by the geopolitical uncertainty. Only when a resolution occurs can the true state of the economy be established and, if needed, fiscal and monetary policy adjusted. Share prices are being driven purely by sentiment; all negative news is taken badly and good news disregarded. The bubble in share prices during the late 1990s has now been entirely eradicated; in fact, such has been the fall that the market is trading at the same level it did in November 1995. Valuations have similarly come down a long way, with over 60% of the FTSE 100 companies yielding more than cash and over 80% trading on a price to earnings ratio below 15x. Sentiment can change rapidly and a little good news on the economy, mixed with cheap valuations, could be a potent mixture.

Alex Crooke  
James Henderson  
5 March 2003

# Investments: Fixed Interest

Valuations at 31 December 2002

STERLING FIXED INTEREST	£'000	STERLING FIXED INTEREST continued	£'000
<b>Preference Shares</b>		<b>Others</b>	
Abbey National 10¾%	994	Allied Domecq Finance 6.625% 2011	1,292
Aviva 8.75%	850	Daily Mail & General Trust 7.5% 2013	818
H P Bulmer 8¾%	207	Diageo 9% 2005	1,428
Chemetall 9%	164	Firstgroup 6.875% 2013	798
Co-operative Bank 9¼%	931	France Telecom 7% 2005	1,552
General Accident 8¾%	836	Hutchison Ports Finance 6.75% 2015	1,618
HBOS 9.75%	1,267	Innogy 8.375% 2006	1,530
National Westminster 9%	1,044	Kelda 6.875% 2010	1,649
Royal & Sun Alliance 7.375%	339	Kingfisher 8½% 2007	1,099
Standard Chartered 7¾%	604	Lloyds 7.834% 2015	1,755
<b>Total Preference Shares</b>	<b>7,236</b>	National Westminster 7.625% 2049	1,671
		P&O Princess Cruises 7.125% 2012	1,649
		Pearson 7% 2014	1,639
		Rentokil Initial 6.125% 2008	1,568
		SPI Finance 8¾% 2049	918
		Welcome Break Financial 8.284% 2017	372
		Wightlink Finance 8.14% 2024	1,047
		<b>Total Others</b>	<b>22,403</b>
		<b>TOTAL FIXED INTEREST</b>	<b>29,639</b>

# Investments: Equities (including convertibles)

Valuations at 31 December 2002

RESOURCES	£'000	GENERAL INDUSTRIALS	£'000
<b>Oil &amp; Gas</b>		<b>Aerospace &amp; Defence</b>	
BP	2,519	† British Aerospace	292
LASMO OPS	88		
Shell Transport & Trading	2,384	<b>Electronic &amp; Electrical Equipment</b>	
<b>Total Resources</b>	<b>4,991</b>	Laird	523
		<b>Engineering &amp; Machinery</b>	
<b>BASIC INDUSTRIES</b>	<b>£'000</b>	Carclo	62
<b>Chemicals</b>		Kidde	601
British Vita	664	Metalrax	345
Imperial Chemical Industries	452	Senior	114
		Tomkins	190
		<b>Total General Industrials</b>	<b>2,127</b>
<b>Construction &amp; Building Materials</b>			
AMEC	438	<b>NON-CYCLICAL CONSUMER GOODS</b>	<b>£'000</b>
† Balfour Beatty	707	<b>Beverages</b>	
Barratt Developments	489	Allied Domecq	1,231
Galliford	704	Diageo	652
Heywood Williams	486	Scottish & Newcastle	255
† John Laing	572		
McCarthy & Stone	389	<b>Food Producers &amp; Processors</b>	
RMC	642	Dairy Crest	684
Taylor Woodrow	271	Unilever	384
<b>Total Basic Industries</b>	<b>5,814</b>	Uniq	167
		<b>Personal Care &amp; Household Products</b>	
		† Reckitt Benckiser	1,256
		<b>Pharmaceuticals</b>	
		GlaxoSmithKline	2,384
		<b>Tobacco</b>	
		British American Tobacco	2,135
		Gallaher	2,725
		Imperial Tobacco	846
		<b>Total Non-Cyclical Consumer Goods</b>	<b>12,719</b>

# Investments: Equities (including convertibles)

continued

<b>CYCLICAL SERVICES</b>	<b>£'000</b>	<b>UTILITIES</b>	<b>£'000</b>
<b>General Retailers</b>		<b>Electricity</b>	
Boots	645	National Grid	2,511
DFS Furniture	1,009	Scottish & Southern Energy	1,611
Dixons	435	Scottish Power	1,015
Findel	502		
Game	162	<b>Water</b>	
Homestyle	415	Pennon	987
Mothercare	97	Severn Trent	1,048
W H Smith	767	United Utilities	1,108
		<b>Total Utilities</b>	<b>8,280</b>
<b>Leisure Entertainment &amp; Hotels</b>		<b>FINANCIALS</b>	<b>£'000</b>
First Choice Holidays	344	<b>Banks</b>	
Greene King	813	Abbey National	589
P&O Princess Cruises	724	Alliance & Leicester	1,194
† My Travel	459	Barclays	1,675
Rank	453	HBOS	2,077
Six Continents	1,114	HSBC	1,174
Whitbread	568	Lloyds TSB	1,409
William Hill	341	Royal Bank of Scotland	2,468
Wolverhampton & Dudley	447		
		<b>Insurance</b>	
<b>Media &amp; Photography</b>		Hiscox	465
Carlton Communications	369	Royal & Sun Alliance	579
Trinity Mirror	520		
		<b>Life Assurance</b>	
<b>Support Services</b>		Aviva	779
† Corporate Services	282	Britannic	328
Davis Service	496	Old Mutual	848
Interserve	562	Prudential	1,027
RAC	605	St James Place	91
† Rexam	797		
South Staffordshire	599	<b>Real Estate</b>	
Wincanton	425	Great Portland	799
		Land Securities	1,054
<b>Transport</b>		Rodamco Europe	1,049
Avis Europe	727	† Slough Estates	1,158
BAA	403		
James Fisher & Sons	339	<b>Investment Companies</b>	
National Express	253	Epic Brand Investment	357
Transport Development	286		
<b>Total Cyclical Services</b>	<b>15,958</b>	<b>Speciality &amp; Other Finance</b>	
		Abbey National 550p Put Option	(10)
<b>NON-CYCLICAL SERVICES</b>	<b>£'000</b>	Cattles	433
<b>Food &amp; Drug Retailers</b>		ICAP	827
Safeway	204	Intermediate Capital	599
Sainsbury	613	Isis Asset Management	625
		Provident Financial	1,099
<b>Telecommunication Services</b>		Singer & Friedlander	396
BT	1,352	<b>Total Financials</b>	<b>23,089</b>
† TeleWest	116		
<b>Total Non-Cyclical Services</b>	<b>2,285</b>	<b>TOTAL EQUITIES</b>	<b>75,263</b>

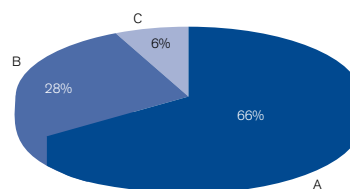
† including convertibles.

# Classification of Investments

at 31 December 2002

	Total 31 Dec 2002 %	Total 31 Dec 2001 %		Total 31 Dec 2002 %	Total 31 Dec 2001 %
<b>FIXED INTEREST</b>			<b>Utilities</b>		
Preference Shares	6.9	4.8	Electricity	4.9	2.8
Others	21.4	21.2	Gas Distribution	-	1.0
	<u>28.3</u>	<u>26.0</u>	Water	3.0	2.1
				<u>7.9</u>	<u>5.9</u>
<b>†EQUITIES</b>			<b>Financials</b>		
<b>Resources</b>			Banks	10.1	14.4
Mining	-	0.7	Insurance	1.0	1.6
Oil & Gas	4.8	5.4	Investment Companies	0.3	-
	<u>4.8</u>	<u>6.1</u>	Life Assurance	2.9	2.9
<b>Basic Industries</b>			Real Estate	3.8	3.0
Chemicals	1.1	0.8	Speciality & Other		
Construction & Building Materials	4.5	4.6	Finance	3.8	3.6
	<u>5.6</u>	<u>5.4</u>		<u>21.9</u>	<u>25.5</u>
<b>General Industrials</b>			<b>TOTAL</b>		
Aerospace & Defence	0.3	0.6		<u>100.0</u>	<u>100.0</u>
Electronic & Electrical Equipment	0.5	-			
Engineering & Machinery	1.3	2.0			
	<u>2.1</u>	<u>2.6</u>			
<b>Non-Cyclical Consumer Goods</b>					
Beverages	2.0	2.7			
Food Producers & Processors	1.2	1.2			
Packaging	-	0.6			
Personal Care & Household Products	1.2	0.9			
Pharmaceuticals	2.3	2.8			
Tobacco	5.4	5.4			
	<u>12.1</u>	<u>13.6</u>			
<b>Cyclical Services</b>					
General Retailers	3.8	3.8			
Leisure Entertainment & Hotels	5.0	4.9			
Media & Photography	0.8	0.5			
Support Services	3.6	3.1			
Transport	1.9	1.4			
	<u>15.1</u>	<u>13.7</u>			
<b>Non-Cyclical Services</b>					
Food & Drug Retailers	0.8	0.4			
Telecommunication Services	1.4	0.8			
	<u>2.2</u>	<u>1.2</u>			

Distribution of the Equity Portfolio of Henderson High Income Trust plc at 31 December 2002



A = Large companies (constituents of the FTSE 100 Index)  
 B = Medium sized companies (constituents of the FTSE 250 Index)  
 C = Small companies

† includes convertible stocks 4.3% (2001: 4.3%)

# Directors' Remuneration Report

## Introduction

This report is submitted in accordance with the Directors' Remuneration Report Regulations 2002 in respect of the year ended 31 December 2002.

## Consideration by the Directors of Matters relating to Directors' Remuneration

The Board as a whole consider directors' remuneration. Accordingly a committee to consider matters relating to directors' remuneration has not been appointed. The Board has not been provided with advice or services by any person in respect of its consideration of directors' remuneration.

## Statement of the Company's Policy on Directors' Remuneration

The Board consists entirely of non-executive directors, who are appointed with the expectation that they will

serve for a period of three years. Directors' appointments are reviewed formally every three years thereafter by the Board as a whole. None of the directors has a contract of service or a contract for services and a director may resign by notice in writing to the Board at any time; there are no notice periods. The Company's policy is for the directors to be remunerated in the form of fees, payable quarterly in arrears, to the director personally or to a third party specified by that director. There are no long term incentive schemes, share option schemes or pension arrangements and the fees are not specifically related to the directors' performance, either individually or collectively.

The Company's policy is that the fees payable to the directors should reflect the time spent by the Board on the Company's affairs and the responsibilities borne by the directors and should be sufficient to enable candidates of high calibre to be recruited. The policy is for

## Amount of each Directors' emoluments

The fees payable in respect of each of the directors who served during the year, and during 2001, were as follows:

	2002	2001
	£	£
Sir Anthony Beaumont-Dark (i)	4,043	11,625
W D Eason	11,500	9,375
J S Curtis (ii)	-	-
P C J Dalby	8,625	7,875
C Dunkerley	8,625	7,875
Sir John Stanley	8,625	7,875
<b>TOTAL</b>	<b>41,418</b>	<b>44,625</b>

Notes:

(i) Sir Anthony Beaumont-Dark retired from the Board on 1 May 2002, prior to which date he had been Chairman of the Board, Audit Committee, Management Engagement Committee and Nominations Committee.

(ii) Mr Curtis retired from the Board on 1 May 2002.

No other remuneration or compensation was paid or payable by the Company during the year to any of the current or former directors.

The following expenses were claimed and paid:

	2002	2001
	£	£
Sir Anthony Beaumont-Dark	260	616
C Dunkerley	898	1,167

Mr Dalby's fees are paid to Cazenove Group plc. The amount so paid was £8,625 (2001: £7,875). No fees were paid in respect of Mr Curtis.

The directors' emoluments stated were those actually paid by the Company. However, Mr Curtis was employed and paid by Henderson Global Investors (Holdings) plc and its subsidiaries ("Henderson") for the provision of services to the Company. It is necessary to state the amount which he received from Henderson and which related to the management of the Company, even though the Company did not pay these emoluments to him and was not involved in their determination.

The Company has been informed that the emoluments paid by Henderson to Mr Curtis for services to the Company during the year (including performance related bonus) were £6,000 (2001: £7,000) as analysed below:

	2002	2001
	£	£
Salary and other benefits	2,000	3,000
Performance related bonus	4,000	4,000
<b>TOTAL</b>	<b>6,000</b>	<b>7,000</b>

# Directors' Remuneration Report

continued

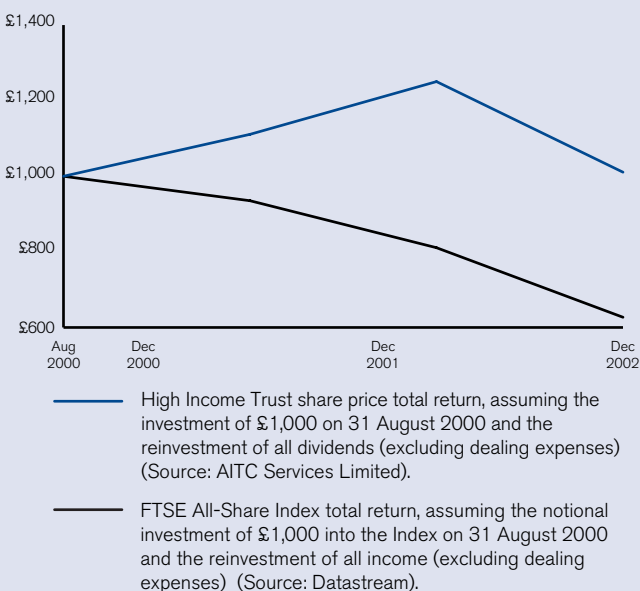
the Chairman of the Board and the key committees to be paid higher fees than the other directors in recognition of his more onerous roles.

For the year ended 31 December 2002, directors' fees were paid at the annual rates of Chairman: £12,500 and Directors: £9,000. The policy is to review these rates annually in light of the fees paid to the boards of other investment trust companies, although such review will not necessarily result in any change to the rates.

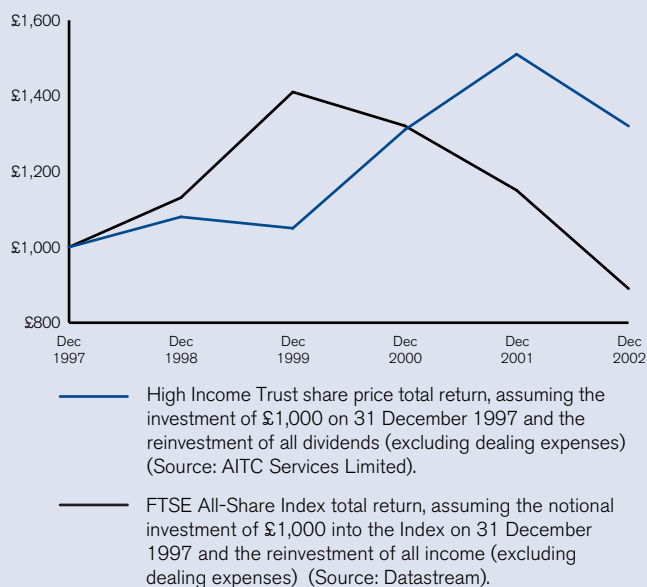
Directors' and Officers' Liability Insurance cover is held by the Company in respect of the directors.

The Company's articles of association currently limit the maximum total fees payable to the directors to £50,000 per annum. This limit has not changed since March 1997, and the directors believe it should be increased to £100,000 to permit the expansion of the Board. Accordingly, an ordinary resolution will be proposed at the forthcoming annual general meeting to increase the limit from £50,000 to £100,000 per annum.

## Performance Graphs



The graph above provides details of the Company's performance since the reorganisation in August 2000 and is based on the ordinary shares of 5p.



The 5 year graph above is based on the ordinary shares of 25p in issue up to the reorganisation in August 2000. Following this, the graph is based on the current units (comprising ordinary shares of 5p and zero dividend preference shares of 50p).

By order of the Board

John Ellman-Brown  
For and on behalf of  
Henderson Secretarial Services Limited  
Secretary  
5 March 2003

Only the information included within the boxes has been audited (see the Independent Auditors' Report on page 20).

# Henderson High Income Trust plc

## Report of the Directors

The directors present the audited accounts of the Group and their report for the year ended 31 December 2002. The Group comprises Henderson High Income Trust plc ("the Company") and its wholly owned subsidiary undertaking, Henderson High Income Trust Securities plc.

### Activities and Business Review

A review of the business is given in the Chairman's Statement on page 4 and in the Investment Review on pages 5 to 7.

### Status

The Company is an investment company as defined in section 266 of the Companies Act 1985 and operates as an investment trust in accordance with section 842 of the Income and Corporation Taxes Act 1988. The Company is required to seek Inland Revenue approval of its status as an investment trust under the above mentioned section 842 every year and this approval will continue to be sought. Inland Revenue approval of the Company's status as an investment trust has been received in respect of the year ended 31 December 2001. The directors are of the opinion that the Company has subsequently conducted its affairs in a manner which will enable it to continue to gain such approval.

The Company intends to continue as a fully qualifying investment trust company under the regulations governing Personal Equity Plans and Individual Savings Accounts.

### Revenue and Dividend

The Group's net revenue after taxation for the year was £5,408,000. Earnings per ordinary share amounted to 9.95p. On the ordinary shares of 5p, three quarterly dividends of 2.475p have been paid and a fourth interim dividend of 2.475p will be paid on 30 April 2003, making a total of 9.90p for the year.

### Assets

The total assets less current liabilities of the Group (before deduction of the zero dividend preference shares in the Subsidiary) at 31 December 2002 amounted to £84,190,000 compared with £97,156,000 at 31 December 2001.

### Directors' Remuneration

A report on directors' remuneration is set out on pages 11 and 12.

### Directors

Mr P C J Dalby, Mr C Dunkerley, Mr W D Eason and the Rt Hon Sir John Stanley all held office throughout the year. Sir Anthony Beaumont-Dark and Mr J S Curtis both retired at the conclusion of the annual general meeting held on 1 May 2002.

The directors retiring by rotation at the forthcoming annual general meeting are Mr W D Eason and Sir John Stanley, both of whom, being eligible, offer themselves for re-election.

Mr P C J Dalby is a director – Cazenove Fund Management, part of Cazenove Group plc, the Company's stockbroker and one of the brokers through which the Company buys and sells investments on an arm's length basis in the normal course of business.

There were no contracts during or at the end of the year in which a director of the Company is or was materially interested and which is or was significant in relation to the Company's business. No director has a contract of service with the Company.

The directors' interests in the share capital of the Company are shown in the table below:

	<b>31 December 2002</b>	1 January 2002
	<b>Ordinary shares of 5p</b>	Ordinary shares of 5p
<i>With beneficial interest:</i>		
Sir Anthony Beaumont-Dark	<b>64,000*</b>	64,000
J S Curtis	<b>7,000*</b>	7,000
P C J Dalby	<b>17,500</b>	17,500
C Dunkerley	<b>72,000</b>	13,500
W D Eason	<b>22,500</b>	22,500
Sir John Stanley	<b>1,825</b>	1,825
The ordinary shares indicated include some held within units. Each unit comprises one ordinary share of 5p in Henderson High Income Trust plc and one zero dividend preference share of 50p in Henderson High Income Trust Securities plc.		
There have been no changes in the directors' interests between the end of the financial year and the date of this report, with the exception of Mr Dunkerley whose beneficial interest has increased by 28,000 to a total of 100,000 ordinary shares of 5p.		
The directors' interests in the share capital of the Subsidiary are set out in the report of the directors of that company.		
*as at date of retirement.		

# Henderson High Income Trust plc

## Report of the Directors

continued

### Corporate Governance

A corporate governance statement is set out on pages 17 to 19.

### Substantial Share Interests

As at 5 March 2003 the following interests in the Company's issued ordinary share capital had been declared to the Company:

Laing & Cruickshank Investment Management Ltd	18.6%
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### Investment Manager

Investment management, UK custodial, accounting, administrative and company secretarial services are provided to the Company by subsidiaries of Henderson Global Investors (Holdings) plc ("Henderson") and Cogent Investment Operations Limited.

The management agreement provides for the payment of a composite annual management fee which is calculated as a percentage of the average value of assets under management on the last day of each of the two years preceding the calendar year in respect of which the calculation is made. The percentage applicable throughout the year ended 31 December 2002 was 0.6 per cent.

Additional funds raised by the Company by way of an issue of securities are subject to a supplemental fee from the date on which the net proceeds are received and are added to the value of the assets at the 31 December preceding such fundraising for the purpose of calculating the following year's management fee. Investments in any funds managed by Henderson are wholly excluded from charge. The management fee is payable quarterly in advance. VAT is payable on the fees where applicable.

The management agreement may be terminated by either party but in certain events the Company may be required to pay compensation to Henderson of an amount of up to one year's management fees. Compensation is not payable if one or more year's notice of termination is given.

The Investment Manager uses certain services which are paid for, or provided, by various brokers. In return it places business, which may include transactions relating to the Company, with these brokers.

### New Management Fee

The Board has agreed new fee arrangements effective from 1 January 2003. The base ad valorem fee has been reduced from 0.6% to 0.5% per annum; this will continue to be calculated as a percentage of the average value of assets under management on the last day of each of the two years preceding the calendar year in respect of which the calculation is made.

The Board has also agreed the introduction of a performance related fee. This will be measured on the average of performance of the Company's total assets (calculated in accordance with Global Investment performance standards) over a period of 3 years, compared with a performance benchmark. The benchmark will be a composite of 75% of the performance of the FTSE All-Share Index and 25% of the FTA Government All Stocks Index. The performance of both the Company and the composite benchmark will be measured on a total return basis; returns for the Company and the FTSE All-Share Index will be measured on the basis of net income re-invested, while returns for the FTA Government All Stocks Index will be measured on a gross income basis.

Performance will be measured on a 3 year rolling basis. Thus, the fee calculated as at 31 December 2005 will take the average performance over calendar years 2003 to 2005; that at 31 December 2006, performance over 2004 to 2006 and so on. In any given year in which a performance fee is payable, the fee rate will be increased by 0.15% for every 1% average outperformance on a sliding scale. The upper limit on the total fee, including the base fee and any performance fee, for any given accounting year will be 1.5%. While performance will be measured over three years, only the current year's fee would be increased in the event of outperformance.

The annual management fee will be reduced from 1 January 2003, however the first 3 year performance fee will not fall payable until following the December 2005 year end (that is in 2006). Therefore, for the first two years of the new fee arrangement, the following transition arrangements have been put in place:

- a performance fee for the year ended 31 December 2003 ("year one"), based on performance over the one year to that date;

# Henderson High Income Trust plc

## Report of the Directors

continued

- a performance fee for the year ended 31 December 2004 ("year two"), based on performance over the two years to that date.

The overall limits for total fees for year one will be 0.8% and for year two will be 1.0%.

### Duration of the Company

In accordance with the Company's articles of association, an ordinary resolution will be proposed at the annual general meeting in 2005, and thereafter at five-yearly intervals, to continue the life of the Company.

### Authority to Allot Shares

At the extraordinary general meeting of the Company held on 16 August 2000, the directors were authorised, in accordance with section 80 of the Companies Act 1985, as amended ("the Act"), to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80 of the Act) up to an aggregate nominal amount of £16,650,000, such authority to expire on 16 August 2005. At 31 December 2001, there was a residual authority amounting to £16,621,250.

The directors were also empowered, pursuant to section 95 of the Act, to allot equity securities (as defined in section 94(2) of the Act) for cash as if section 89(1) of the Act did not apply, this power being limited to the allotment of (i) the B shares and the Special Redeemable Preference Shares pursuant to the Company's capital reorganisation; (ii) a rights issue or other offer of securities to the ordinary shareholders, pro rata to their existing holdings; and (iii) equity securities up to a nominal amount equal to 10 per cent of the ordinary share capital of the Company in issue immediately after the capital reorganisation. This authority expires on 16 August 2005. There were 52,603,865 ordinary shares of 5p in issue after the capital reorganisation on 16 August 2000.

The Board has exercised these authorities on five occasions during the year, allotting a total of 2,250,000 ordinary shares of 5p at a premium to net asset value. It therefore has a residual authority under section 80 of the Act to allot up to an aggregate nominal amount of £16,508,750, and a residual authority under section 95 of the Act to allot, on a non-pre-emptive basis, up to 3,067,886 ordinary shares of 5p for cash.

Following the allotment of shares reported above, there are 55,428,865 ordinary shares of 5p in issue. The Board

considers it has sufficient residual authority under section 80 of the Act and therefore will not be seeking a new authority at this time. However, with the increased number of ordinary shares in issue, the Board wishes to continue to have authority under section 95 of the Act available to it. A new authority will therefore be sought to empower the directors, pursuant to section 95 of the Act, to allot equity securities (as defined in section 94(2) of the Act) for cash as if section 89(1) of the Act did not apply, this power being limited to the allotment of equity securities up to a nominal amount of £277,144 equivalent to 10 per cent of the ordinary share capital of the Company in issue at the date of this report. If renewed, this authority will expire at the conclusion of the annual general meeting in 2004. The directors intend to issue new ordinary shares pursuant to these powers if investor demand for them is strong. However, the directors will issue new shares only when they believe it to be advantageous to the Company's existing shareholders to do so. New shares will not be allotted at other than a premium to net asset value.

### Share Buy-Backs

The authority granted to the Company at the annual general meeting on 1 May 2002 to make market purchases of up to 7,971,511 of its own ordinary shares of 5p was not used.

The Board wishes to seek a fresh authority and, accordingly, a special resolution will be proposed at the forthcoming annual general meeting to give the Company authority to make market purchases of up to 8,308,786 of its own ordinary 5p shares (being 14.99% of the ordinary shares in issue at 5 March 2003, the date of the notice of annual general meeting). The directors will exercise this authority only when such shares can be purchased at a price that represents a discount to the then prevailing net asset value per share or if to do so would result (together with any related purchase of zero dividend preference shares in the Subsidiary) in an increase in the net asset value per share. Shares cannot be bought back if as a result the cover of the zero dividend preference shares in the Subsidiary would fall below the requisite level of one and a half times. The authority will lapse unless renewed at the annual general meeting due to be held in 2004.

The maximum purchase price which may be paid for an ordinary share will not be more than 5 per cent above the average of the middle market values of the shares, as

# Henderson High Income Trust plc

## Report of the Directors

continued

taken from the London Stock Exchange Daily Official List, for the five business days preceding the date of purchase. The minimum price will be 5p, being the nominal value per ordinary share. Any shares purchased by the Company will be cancelled and the number of ordinary shares in issue will be reduced accordingly.

### **Auditors**

A resolution to reappoint Deloitte & Touche as auditors to the Company, and to authorise the directors to determine their remuneration, will be proposed at the forthcoming annual general meeting.

### **The Payment of Suppliers**

It remains the Company's policy for the forthcoming financial year to obtain the best terms for all business and therefore there is no single policy as to the terms used. In general the Company agrees with its suppliers the terms on which business will take place and it is the Company's policy to abide by such terms. There were no trade creditors at 31 December 2002.

By order of the Board

John Ellman-Brown  
For and on behalf of  
Henderson Secretarial Services Limited  
Secretary  
*5 March 2003*

# Statement of Directors' Responsibilities

## in respect of the Accounts

The directors are required by UK company law to prepare accounts for each financial year that give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the net revenue of the Group for that period.

The directors confirm that suitable accounting policies have been used and applied consistently and that reasonable and prudent judgements and estimates have been made in the preparation of the accounts for the year

ended 31 December 2002. The directors also confirm that applicable accounting standards have been followed and that the accounts have been prepared on a going concern basis.

The directors are responsible for keeping proper accounting records, for the system of internal control, for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Corporate Governance

### Background

The UK Listing Authority requires all listed companies to disclose how they have applied the principles and complied with the provisions of the Combined Code ("the Code").

### Application of the Principles of the Code

The Board attaches importance to the matters set out in the Code and applies its principles. However, as an investment company, most of the Company's day-to-day responsibilities are delegated to third parties and the directors are all non-executive. Thus not all the provisions of the Code are directly applicable to the Company.

### Directors

The Board currently consists of four non-executive directors, all of whom are independent of the Company's Investment Manager (Henderson Global Investors Limited). Their biographical details, set out on page 2, demonstrate a breadth of investment, commercial and professional experience.

The Board meets at least six times a year and deals with the important aspects of the Company's affairs, including the setting and monitoring of investment strategy and the review of investment performance. The Investment Manager takes decisions as to the purchase and sale of individual investments. The Investment Manager also ensures that all directors receive, in a timely manner, all relevant management, regulatory and financial information. Representatives of the Investment Manager attend each Board meeting, enabling the directors to seek clarification on specific issues or to probe further on matters of

concern. Matters specifically reserved for decision by the full Board have been defined and there is an agreed procedure for directors, in the furtherance of their duties, to take independent professional advice if necessary at the Company's expense. The directors have access to the advice and services of the corporate company secretary, through its appointed representative, who is responsible to the Board for ensuring that Board procedures are followed.

When a director is appointed he or she is offered an induction seminar which is held by the Investment Manager. Directors are also provided, on a regular basis, with key information on the Company's policies, regulatory and statutory requirements and internal controls. Changes affecting directors' responsibilities are advised to the Board as they arise.

Directors are appointed for specified terms, subject to re-election and to the provisions of the Companies Act. In accordance with the Company's articles of association, new directors stand for election at the first annual general meeting following their appointment and every director stands for re-election at intervals of not more than three years.

The Chairman of the Company is a non-executive director.

### Board Committees

The Board has established audit, management engagement and nominations committees with defined terms of reference and duties. The membership of these committees is set out on page 2.

# Corporate Governance

continued

The Audit Committee is responsible for the review of the annual report and the interim report, the nature and scope of the external audit and the findings therefrom, and the terms of appointment of the auditors, including their remuneration and the provision of any non-audit services by them. It also meets with representatives of the Investment Manager and receives reports on the quality and effectiveness of the accounting records and management information maintained on behalf of the Company.

The Management Engagement Committee is responsible for the regular review of the terms of the management agreement. The Committee meets at least once every year and reviews the terms of the management agreement to ensure that they are competitive and sensible to shareholders. The Committee has established a procedure whereby it decides each year whether or not the Investment Manager should be retained. At its meeting in October 2002 the Committee confirmed that Henderson Global Investors Limited should be retained as the Investment Manager.

The Nominations Committee is responsible for making recommendations on the appointment of new directors and for all Board positions.

## **Directors' Remuneration**

The Board as a whole considers directors' remuneration and therefore has not appointed a separate Remuneration Committee. Since the Company is an investment trust company and all its directors are non-executive, the Company is not required to comply with the provisions of the Code in respect of the remuneration of executive directors. Directors' fees are detailed in the Remuneration Report set out on pages 11 and 12; no fees are paid by the Subsidiary.

## **Relations with Shareholders**

The Investment Manager has an ongoing programme of meetings with major shareholders and matters raised at these meetings are reported to the Board.

The Board considers that shareholders should be encouraged to attend and participate in the annual general meeting. The annual general meeting is chaired by the Chairman of the Board who is also the Chairman of the Audit, Management Engagement and Nominations Committees. Details of the proxy votes received in respect of each resolution are made available to shareholders. Representatives of the Investment Manager make a presentation to the meeting. The Company has adopted a nominee share code which is set out on page 44.

## **Accountability and Audit**

The statement of directors' responsibilities in respect of the accounts is set out on page 17 (Subsidiary: page 35). The report of the auditors is set out on page 20 (Subsidiary: page 36). The Board has delegated contractually to external agencies, including the Investment Manager, the management of the investment portfolio, the custodial services (which include the safeguarding of the assets), the day-to-day accounting, company secretarial and administration requirements and the registration services. Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of the services offered, including the control systems in operation in so far as they relate to the affairs of the Company. The Board receives and considers regular reports from the Investment Manager and ad hoc reports and information are supplied to the Board as required. In addition, the Chairman attends meetings of all the chairmen of the investment trust companies managed by the Investment Manager; these meetings provide a forum to discuss industry matters and the Chairman reports on them to the Board.

The Investment Manager has established an internal control framework to provide reasonable assurance on the effectiveness of the internal controls operated on behalf of its clients. The effectiveness of the internal controls is assessed by the Investment Manager's compliance and risk department on an ongoing basis.

# Corporate Governance

continued

## Internal Control

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This process is subject to regular review by the Board and accords with the Internal Control Guidance for Directors on the Code published in September 1999 ("the Turnbull guidance"). The process was fully in place up to the date of approval of this annual report and has operated throughout the year under review. In addition the Board has conducted its annual review of the effectiveness of the Company's system of internal control, covering all the controls, including financial, operational and compliance controls and risk management. This review took into account points raised during the year in the Board's regular appraisal of specific areas of risk.

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risks of failure to achieve the Company's business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board, assisted by the Investment Manager, undertook a full review of the Company's business risks and these are analysed and recorded in a risk map. The Board receives each quarter from the Investment Manager a formal report which details the steps taken to monitor the areas of risk, including those that are not directly the responsibility of the Investment Manager, and which reports the details of any known internal control failures. Steps will continue to be taken to embed the system of internal control and risk management into the operations and culture of the Company and of its key suppliers.

The Company delegates to third parties most of its operations and does not employ any staff; therefore it does

not itself have an internal audit function. The Board will continue to monitor its system of internal control in order to provide assurance that it operates as intended and the directors will review from time to time whether a function equivalent to an internal audit is needed.

## Socially Responsible Investment

Good corporate governance extends to a company's policies on the environment, employment, human rights and community relationships. Corporations are playing an increasingly important role in global economic activity and the adoption of good corporate governance enhances a company's economic prospects by reducing the risk of government and regulatory intervention and any ensuing damage to its business or reputation.

The Company's policy is to examine and monitor the policies and actions of the companies in which it invests. Its overriding objective remains the maximisation of shareholders' total return.

## Going Concern

The directors believe that it is appropriate to continue to adopt the going concern basis in preparing the accounts as the assets of the Company consist mainly of securities that are readily realisable and, accordingly, the Company has adequate financial resources to continue in operational existence for the foreseeable future.

## Exercise of Voting Powers

The Board has approved a corporate governance voting policy which, in its opinion, accords with current best practice whilst maintaining a primary focus on financial returns.

## Statement of Compliance

The directors consider that the Company has complied throughout the year ended 31 December 2002 with all the relevant provisions set out in Section 1 of the Code.

# Report of the Independent Auditors

to the members of Henderson High Income Trust plc

We have audited the financial statements of Henderson High Income Trust plc for the year ended 31 December 2002 which comprise the Group statement of total return, the Group and Company balance sheets, the Group cash flow statement and the related notes 1 to 24. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective Responsibilities of Directors and Auditors

As described in the Statement of Directors' Responsibilities, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report including the directors' remuneration report. Our responsibility is to audit the financial statements and the part of the directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements, auditing standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985. 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 and other members of the Group is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on

internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section including the unaudited part of the directors' remuneration report and 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 United Kingdom 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 and the part of the directors' remuneration report described as having been audited. 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 circumstances of the Company and the Group, 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 and the part of the directors' remuneration report described as having been audited 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 and the part of the directors' remuneration report described as having been audited.

## Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2002 and of the total return of the Group for the year then ended; and
- the financial statements and part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

DELOITTE & TOUCHE

Chartered Accountants and Registered Auditors  
London

5 March 2003

*Neither an audit nor a review provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial statements since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area.*

*Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.*

# Henderson High Income Trust plc

## Group Statement of Total Return (incorporating the revenue account)

for the year ended 31 December 2002

Notes	Year ended 31 December 2002			Year ended 31 December 2001		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
2	–	(14,960)	(14,960)	–	(1,314)	(1,314)
3	6,461	–	6,461	6,147	–	6,147
4	79	–	79	97	–	97
	<b>6,540</b>	<b>(14,960)</b>	<b>(8,420)</b>	<b>6,244</b>	<b>(1,314)</b>	<b>4,930</b>
	<b>Gross revenue and capital losses</b>					
5	(330)	(495)	(825)	(299)	(448)	(747)
6	(222)	–	(222)	(170)	–	(170)
	<b>5,988</b>	<b>(15,455)</b>	<b>(9,467)</b>	<b>5,775</b>	<b>(1,762)</b>	<b>4,013</b>
	<b>Net return/(loss) on ordinary activities before interest payable and taxation</b>					
7	(228)	(684)	(912)	(338)	(1,015)	(1,353)
	–	(2,403)	(2,403)	–	(2,221)	(2,221)
	<b>5,760</b>	<b>(18,542)</b>	<b>(12,782)</b>	<b>5,437</b>	<b>(4,998)</b>	<b>439</b>
	<b>Net return/(loss) on ordinary activities before taxation</b>					
8	(352)	342	(10)	(392)	393	1
	<b>5,408</b>	<b>(18,200)</b>	<b>(12,792)</b>	<b>5,045</b>	<b>(4,605)</b>	<b>440</b>
	<b>Net return/(loss) on ordinary activities after taxation</b>					
	<b>Dividends: ordinary shares</b>					
	(1,341)	–	(1,341)	(1,302)	–	(1,302)
	(1,372)	–	(1,372)	(1,302)	–	(1,302)
	(1,372)	–	(1,372)	(1,316)	–	(1,316)
	(1,372)	–	(1,372)	(1,316)	–	(1,316)
	<b>(5,457)</b>	<b>–</b>	<b>(5,457)</b>	<b>(5,236)</b>	<b>–</b>	<b>(5,236)</b>
	<b>(49)</b>	<b>(18,200)</b>	<b>(18,249)</b>	<b>(191)</b>	<b>(4,605)</b>	<b>(4,796)</b>
	<b>Transfer from reserves</b>					
9	<b>9.95p</b>	<b>(33.49)p</b>	<b>(23.54)p</b>	<b>9.58p</b>	<b>(8.74)p</b>	<b>0.84p</b>
	<b>Return/(loss) per ordinary share</b>					
9	–	<b>4.57p</b>	<b>4.57p</b>	–	<b>4.22p</b>	<b>4.22p</b>
	<b>Return per zero dividend preference share in the Subsidiary</b>					
9	<b>9.95p</b>	<b>(28.92)p</b>	<b>(18.97)p</b>	<b>9.58p</b>	<b>(4.52)p</b>	<b>5.06p</b>
	<b>Return/(loss) per unit</b>					

The revenue columns of this statement represent the revenue accounts of the Group.

# Henderson High Income Trust plc

## Group and Company Balance Sheets

at 31 December 2002

Notes	Group 2002 £'000	Company 2002 £'000	Group 2001 £'000	Company 2001 £'000
10	<b>Fixed asset investments</b>			
	Listed in the United Kingdom			
	<b>104,902</b>	<b>104,902</b>	119,123	119,123
	<b>104,902</b>	<b>104,902</b>	119,123	119,123
	<b>Current assets</b>			
11	Debtors			
	<b>1,247</b>	<b>1,247</b>	2,019	2,019
	Bank balances and short term deposits			
	-	-	1,000	1,000
	<b>1,247</b>	<b>1,247</b>	3,019	3,019
12	<b>Creditors: amounts falling due within one year</b>			
	<b>(21,959)</b>	<b>(21,959)</b>	(24,986)	(24,986)
	<b>Net current liabilities</b>			
	<b>(20,712)</b>	<b>(20,712)</b>	(21,967)	(21,967)
	<b>Total assets less current liabilities</b>			
	<b>84,190</b>	<b>84,190</b>	97,156	97,156
13	<b>Creditors: amounts falling due after one year</b>			
	Amounts owed to group undertaking			
	-	<b>(31,710)</b>	-	(29,307)
	Zero dividend preference shares in the Subsidiary			
	<b>(31,710)</b>	-	(29,307)	-
	<b>Provisions for liabilities and charges</b>			
	-	-	-	-
	<b>Net assets</b>			
	<b>52,480</b>	<b>52,480</b>	67,849	67,849
	<b>Capital and reserves</b>			
15	Share capital			
	<b>2,771</b>	<b>2,771</b>	2,659	2,659
16	Capital redemption reserve			
	<b>26,302</b>	<b>26,302</b>	26,302	26,302
16	Other capital reserves			
	Share premium			
	<b>8,398</b>	<b>8,398</b>	5,630	5,630
	Realised reserve			
	<b>18,556</b>	<b>18,556</b>	20,192	20,192
	Unrealised (depreciation)/appreciation			
	<b>(4,642)</b>	<b>(4,642)</b>	11,922	11,922
16	Revenue reserve			
	<b>1,095</b>	<b>1,095</b>	1,144	1,144
17	<b>Equity shareholders' funds</b>			
	<b>52,480</b>	<b>52,480</b>	67,849	67,849
	<b>Net asset value per ordinary share</b>			
	<b>94.68p</b>	<b>94.68p</b>	127.59p	127.59p
	<b>Funds attributable to:</b>			
17	<i>Ordinary shares</i>		<i>67,849</i>	
	<i>Zero dividend preference shares in the Subsidiary</i>		<i>29,307</i>	
	<b>84,190</b>		<b>97,156</b>	
	<b>Net asset value per:</b>			
19	<i>Ordinary share</i>		<i>127.59p</i>	
19	<i>Zero dividend preference share in the Subsidiary</i>		<i>55.71p</i>	
19	<i>Unit</i>		<i>183.30p</i>	

The accounts were approved by the directors on 5 March 2003, and signed on their behalf by:

W D Eason  
Director



# Henderson High Income Trust plc

## Notes to the Accounts

### 1 Accounting policies

#### a Basis of accounting

The accounts have been prepared on the historical cost basis of accounting, modified to include the revaluation of investments. The accounts have been prepared in accordance with applicable accounting standards and with the Statement of Recommended Practice *Financial Statements of Investment Trust Companies* ("the SORP") dated December 1995. All of the Company's operations are of a continuing nature.

#### b Group accounts

The Group accounts consolidate the accounts of the Company and its wholly owned Subsidiary, Henderson High Income Trust Securities plc.

#### c Valuation of investments

UK listed investments are valued according to the prices issued by the London Stock Exchange, these being the closing mid-market prices for all investments other than FTSE 100 constituents and FTSE 100 reserve list constituents for which the last trade prices are used.

#### d Capital gains and losses

Realised and unrealised capital gains and losses are dealt within other capital reserves.

#### e Income

Dividends receivable from equity shares are taken to the revenue account on an ex-dividend basis. Income from fixed interest debt securities and preference shares is recognised on a time apportionment basis and, if material, so as to reflect the effective yield on these securities. In accordance with Financial Reporting Standard 16 *Current Taxation* franked investment income is shown net of the related tax credits.

#### f Expenses

All expenses are accounted for on an accruals basis. The Board's expectation is that over the long term three quarters of the Group's investment returns will be in the form of capital gains. On this basis, the Group charges to capital 75% of its finance costs and management fees (to the extent that the management fees relate to the maintenance or enhancement of the valuation of investments).

#### g Deferred taxation

Financial Reporting Standard 19 has been adopted for the year ended 31 December 2002. No restatement of prior period comparatives is required.

Deferred taxation is provided on all timing differences that have originated but not been reversed by the balance sheet date, other than those differences regarded as permanent. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Any liability to deferred tax is provided at the average rate of tax expected to apply. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

#### h Financial instruments

Derivative instruments utilised by the Company include traded options. The Group has taken advantage of the exemption allowed under Financial Reporting Standard 13 and excluded short term debtors and creditors from disclosures under financial instruments where allowed.

# Henderson High Income Trust plc

## Notes to the Accounts

continued

	Group 2002 £'000	Group 2001 £'000
<b>2 Total capital losses from investments</b>		
Realised gains based on historical cost	1,640	4,247
Less: amounts recognised as unrealised in previous years	<b>(2,347)</b>	(5,217)
Realised losses based on carrying value at previous balance sheet date	<b>(707)</b>	(970)
Net movement in unrealised appreciation	<b>(14,217)</b>	(358)
Capital reorganisation expenses	–	16
Net foreign exchange movement	<b>(36)</b>	(2)
	<b>(14,960)</b>	(1,314)

	2002 £'000	2001 £'000
<b>3 Income from fixed asset investments</b>		
<i>Franked:</i>		
Listed – dividends	4,432	4,209
	<b>4,432</b>	4,209
<i>Unfranked:</i>		
Listed – interest income	1,836	1,924
– dividend income	28	14
– stock dividends	165	–
	<b>2,029</b>	1,938
	<b>6,461</b>	6,147

	2002 £'000	2001 £'000
<b>4 Other interest receivable and similar income</b>		
Bank interest	16	82
Underwriting commission	63	15
	<b>79</b>	97

	2002 Revenue £'000	2002 Capital £'000	2002 Total £'000	2001 Revenue £'000	2001 Capital £'000	2001 Total £'000
<b>5 Management fee</b>						
Management fee	285	428	713	258	387	645
Irrecoverable VAT thereon	45	67	112	41	61	102
	<b>330</b>	<b>495</b>	<b>825</b>	299	448	747

A summary of the terms of the management agreement is given on page 14 in the Report of the Directors.

# Henderson High Income Trust plc

## Notes to the Accounts

continued

<b>6 Other administrative expenses</b> (including irrecoverable VAT)	<b>2002</b> <b>£'000</b>	2001 £'000
Directors' fees (see Directors' Remuneration Report on pages 11 and 12)	<b>43</b>	46
Auditors' remuneration – for audit services	<b>12</b>	12
Other expenses payable to the management company*	<b>20</b>	8
Other expenses	<b>147</b>	104
	<b>222</b>	170

\*Other expenses payable to the management company relate to share plan marketing and administration services.

<b>7 Interest payable</b>	<b>2002</b> <b>£'000</b>	2001 £'000
On bank loans and overdrafts repayable within one year	<b>912</b>	1,353
Less: charged to realised capital reserve	<b>(684)</b>	(1,015)
	<b>228</b>	338

<b>8 a Taxation on ordinary activities</b>	<b>2002</b> <b>£'000</b>	2001 £'000
Irrecoverable overseas tax	<b>3</b>	–
Tax relief on expenses charged to capital	<b>342</b>	393
Tax charge in respect of the current year	<b>345</b>	393
Prior year adjustments	<b>7</b>	(1)
	<b>352</b>	392

**b** The tax assessed for the year is lower than the standard rate of corporation tax in the UK of 30%. The differences are explained below:

<b>Revenue on ordinary activities before taxation</b>	<b>2002</b> <b>£'000</b>	2001 £'000
Theoretical tax at UK corporation tax rate of 30% (2001: 30%)	<b>1,728</b>	1,630
Effects of:		
– UK dividends which are not taxable	<b>(1,330)</b>	(1,263)
– (Decrease)/increase in excess management expenses	<b>(15)</b>	67
– Expenses not deductible for tax purposes	<b>20</b>	3
– Tax underprovided/(overprovided) in previous years	<b>7</b>	(1)
– Scrip dividends	<b>(49)</b>	–
– Adjustment to deferred tax	<b>–</b>	1
– Irrecoverable overseas tax suffered	<b>3</b>	–
– Adjustment for tax relief on expenses charged to capital	<b>(12)</b>	(45)
Actual current tax charge	<b>352</b>	392

The Parent company is an investment trust and therefore is not taxable on capital gains.

### **c Factors that may affect future tax charges**

The Company has expenses in excess of taxable income of £169,000 (2001: £220,000) that are available to offset future taxable revenue. A deferred tax asset of £51,000 (2001: £66,000) has not been recognised in respect of those expenses and will be recoverable only to the extent that the company has sufficient future taxable revenue.

# Henderson High Income Trust plc

## Notes to the Accounts

continued

### 9 Return per share

#### a Returns per ordinary share

Revenue return per ordinary share is based on the earnings attributable to the ordinary shares of £5,408,000 (2001: £5,045,000) and on the 54,346,536 weighted average number of ordinary shares in issue during the year (2001: 52,677,016).

Capital loss per ordinary share is based on the net capital loss for the year of £18,200,000 (2001: capital loss of £4,605,000) and on the 54,346,536 weighted average number of ordinary shares in issue during the year (2001: 52,677,016).

#### b Returns per zero dividend preference share

Capital return per zero dividend preference share reflects the predetermined growth in capital entitlement for the year of £2,403,000 (2001: £2,221,000) based on the 52,603,865 (2001: 52,603,865) zero dividend preference shares in issue.

#### c Returns per unit

Revenue return per unit, each unit consisting of one ordinary share of 5p in the Company and one zero dividend preference share of 50p in the Subsidiary, amounts to 9.95p per unit.

Capital loss per unit, each unit consisting of one ordinary share of 5p in the Company and one zero dividend preference share of 50p in the Subsidiary, amounts to (28.92)p per unit.

10 Fixed asset investments	Group & Company investments £'000	Subsidiary undertaking* £'000
Valuation at 1 January 2002	119,123	–
Unrealised appreciation at 1 January 2002	11,922	–
Cost of investments at 1 January 2002	107,201	–
Purchases at cost	35,615	–
Sales at cost	(33,272)	–
Cost of investments at 31 December 2002	109,544	–
Unrealised depreciation at 31 December 2002	(4,642)	–
<b>Valuation at 31 December 2002</b>	<b>104,902</b>	<b>–</b>

\* The Subsidiary is valued at the cost of the four ordinary shares of 50p, fully paid and held by the Parent.

11 Debtors	Group 2002 £'000	Company 2002 £'000	Group 2001 £'000	Company 2001 £'000
Sales for future settlement	–	–	582	582
Taxation recoverable	8	8	145	145
Prepayments and accrued income	1,239	1,239	1,292	1,292
	<b>1,247</b>	<b>1,247</b>	<b>2,019</b>	<b>2,019</b>

# Henderson High Income Trust plc

## Notes to the Accounts

continued

	Group 2002 £'000	Company 2002 £'000	Group 2001 £'000	Company 2001 £'000
<b>12 Creditors:</b> amounts falling due within one year				
Bank loans	18,689	18,689	22,207	22,207
Bank overdrafts	252	252	–	–
Purchases for future settlement	143	143	–	–
Dividends payable on the ordinary shares	2,744	2,744	2,632	2,632
Accruals	131	131	147	147
	<b>21,959</b>	<b>21,959</b>	24,986	24,986

Details of repayment dates and the weighted average interest rate payable on bank loans are disclosed in note 14b.

	Group 2002 £'000	Company 2002 £'000	Group 2001 £'000	Company 2001 £'000
<b>13 Creditors:</b> amounts falling due after one year				
Zero dividend preference shares in the Subsidiary	26,302	–	26,302	–
Loan from Henderson High Income Trust Securities plc	–	26,302	–	26,302
Provision for redemption of the zero dividend preference shares in Henderson High Income Trust Securities plc	5,408	5,408	3,005	3,005
	<b>31,710</b>	<b>31,710</b>	29,307	29,307

The loan from Henderson High Income Trust Securities plc is made on an interest free basis. It is repayable in full on 30 September 2005.

### 14 Derivatives and other financial instruments

#### a Management of risk

The Company's financial instruments comprise:

- Equity shares held within the portfolio;
- Short term sterling and Euro loans used to finance its investing activities;
- Derivative transactions comprising traded options, the purpose of which is to manage market price risks arising from its investment activities; and
- Cash and short-term debtors and creditors which arise from its investing activities.

The risks arising from these financial instruments are market price risk, liquidity risk and interest rate risk. The Company is not exposed to any material risk arising from fluctuations in foreign currency exchange rates.

#### Market price risk

An investment trust is exposed to market risk due to fluctuations in the market prices of the investments held in its portfolio. It is the Board's policy to hold an appropriate spread of investments in the portfolio in order to reduce the risk arising from factors specific to a particular sector. The Company has used traded options during the year to manage market price risk. The Portfolio Manager actively monitors market prices throughout the year and reports to the Board which meets regularly in order to consider investment strategy.

#### Liquidity risk

The Company's assets comprise mainly readily realisable securities, which can be sold to meet funding commitments if necessary. The maturities of the Company's existing borrowings are set out in part b to this note.

# Henderson High Income Trust plc

## Notes to the Accounts

continued

### 14 Derivatives and other financial instruments (continued)

#### Interest rate risk

The majority of the Company's assets comprise equity shares, bonds, preference shares, bank balances and short term deposits. The equity shares neither pay interest nor carry a maturity date. Returns from bonds and preference shares are fixed at the time of purchase, as the fixed coupon payments are known, as are the final redemption proceeds. This means that if a bond is held until its redemption date, the total return achieved is unaltered from its purchase date. However, over the life of a bond the market price at any given time will depend on the market environment at that time. Therefore, a bond sold before its redemption date may have a different price from its purchase cost and a profit or loss may be incurred. Bond and preference share prices are determined by market perception as to the appropriate level of yields given the economic background. Key determinants include economic growth prospects, inflation, the Government's fiscal position, short term interest rates and international market comparisons. The Portfolio Manager takes all these factors into account when making investment decisions as well as considering the financial position of the potential investee company.

The Company has drawn down fixed rate short term sterling loans to finance its investment operations and these liabilities do not expose the Company to any material risk arising from fluctuations in interest rates.

#### b Interest rate risk profile of financial assets and financial liabilities

##### Financial assets

The interest rate profile of the assets of the Company at 31 December 2002 was as follows:

	Total £'000	Floating rate £'000	Fixed rate £'000	Financial assets on which no interest is paid £'000	Weighted average interest rate† %	Weighted average period for which rate is fixed (years)*
UK corporate bonds	22,403	–	22,403	–	6.55	12.14
Preference and convertible shares	12,168	–	12,168	–	7.92	–
Equities	70,331	–	–	70,331	–	–
Cash at bank	–	–	–	–	–	–
<b>Total</b>	<b>104,902</b>	<b>–</b>	<b>34,571</b>	<b>70,331</b>	<b>6.97</b>	

†The weighted average interest rate is based on the current yield of each asset, weighted by its market value.

\*This excludes all equities.

##### Financial liabilities

At 31 December 2002 the Company had fixed rate short term sterling and Euro loans totalling £18.69 million that were repayable on 3 January 2003 and 13 January 2003. The weighted average interest rate payable on these loans was 4.59%.

At 31 December 2002 the Company had a loan of £26,302,000 from its wholly owned Subsidiary, Henderson High Income Trust Securities plc. The loan is made on an interest free basis and is repayable in full on 30 September 2005.

The Company has also undertaken that, no later than 30 September 2005, it will subscribe for such number of ordinary shares in Henderson High Income Trust Securities plc as will be necessary to provide that company on 30 September 2005 (after taking into account the monies to be received by it on repayment of the loan) with sufficient funds to meet the final capital entitlements of its zero dividend preference shareholders. The amount required, in respect of the 52,603,865 zero dividend preference shares in issue at 31 December 2002, will be £13,084,000. The provision for this amounted to £5,408,000 at 31 December 2002.

#### c Currency profile

All financial assets and financial liabilities of the Company at 31 December 2002 are denominated in sterling with the exception of two items denominated in Euros: Rodamco Europe NV equity investment valued at £1,049,407, and Royal Bank of Scotland loan in the amount of £1,083,201.

# Henderson High Income Trust plc

## Notes to the Accounts

continued

### 14 Derivatives and other financial instruments (continued)

#### d Loan facilities

The Company had a committed loan facility of £25 million at 31 December 2002 (2001: committed loan facility of £25 million). The committed facility, which is with The Royal Bank of Scotland plc, is for a period of five years from 20 July 2000; loans drawn down under the facility can be for different durations but normally are for terms of not more than nine months. The Company had at 31 December 2002 a facility under an ISDA Master Agreement with The Royal Bank of Scotland plc dated 13 September 2000 enabling it to fix the rate of its borrowings; this facility was not used during the year.

#### e Fair value of financial assets and financial liabilities

All of the Company's assets and the short term sterling loans and overdrafts are carried at fair value.

At 31 December 2002 the market value of the zero dividend preference shares issued by Henderson High Income Trust Securities plc was £33,140,000.

### 15 Share capital

	2002 £'000	2001 £'000
<b>Authorised</b>		
940,000,000 ordinary shares of 5p each	<b>47,000</b>	47,000
<b>Allotted, issued and fully paid</b>		
55,428,865 ordinary shares of 5p each	<b>2,771</b>	–
(2001: 53,178,865 ordinary shares of 5p each)	–	2,659

During the year under review, 2,250,000 ordinary shares of 5p were allotted and issued for cash consideration as follows:

Date	Allottee	No. of shares	Price per share
15 May	Apollo Nominees Limited	1,000,000	147.0p
4 July	Apollo Nominees Limited	400,000	127.0p
25 July	CLS Nominees Limited	550,000	105.0p
26 July	CLS Nominees Limited	200,000	105.5p
10 September	CLS Nominees Limited	100,000	114.0p

Therefore, as at 31 December 2002, there were 55,428,865 ordinary shares of 5p in issue (2001: 53,178,865).

### 16 Company and Group reserves

	Capital redemption reserve £'000	Share premium £'000	Realised reserve £'000	Unrealised appreciation/ (depreciation) £'000	Revenue reserve £'000
Reserves at 1 January 2002	26,302	5,630	20,192	11,922	1,144
Transfer on disposal of investments	–	–	2,347	(2,347)	–
Net losses from investments	–	–	(707)	(14,217)	–
Exchange loss	–	–	(36)	–	–
Management fee and finance costs charged to capital	–	–	(1,179)	–	–
Corporation tax relief thereon	–	–	342	–	–
Provision for redemption of the zero dividend preference shares in the Subsidiary	–	–	(2,403)	–	–
Share issuance	–	2,768	–	–	–
Retained revenue for the year	–	–	–	–	(49)
<b>At 31 December 2002</b>	<b>26,302</b>	<b>8,398</b>	<b>18,556</b>	<b>(4,642)</b>	<b>1,095</b>

# Henderson High Income Trust plc

## Notes to the Accounts

continued

<b>17 Company and Group reconciliation of movement in ordinary shareholders' funds</b>	<b>2002</b>	<b>2001</b>
	<b>£'000</b>	<b>£'000</b>
Net revenue on ordinary activities after taxation	<b>5,408</b>	5,045
Dividends	<b>(5,457)</b>	(5,236)
	<b>(49)</b>	(191)
Decrease in realised and unrealised profits	<b>(15,320)</b>	(3,897)
	<b>(15,369)</b>	(4,088)
Capital reorganisation	–	16
Shareholders' funds at 1 January	<b>67,849</b>	71,921
<b>Ordinary shareholders' funds at 31 December</b>	<b>52,480</b>	67,849

### 18 Company revenue account

As permitted by section 230 of the Companies Act 1985, the Company has not presented its own revenue account. The net revenue after taxation of the Company dealt with in the accounts of the Group was £5,408,000 (2001: £5,045,000).

### 19 Net asset values

#### a Net asset value per ordinary share

The net asset value per ordinary share is based on the net assets attributable to the ordinary shares of £52,480,000 (2001: £67,849,000) and on the 55,428,865 ordinary shares of 5p in issue at 31 December 2002 (2001: 53,178,865 ordinary shares of 5p).

#### b Net asset value per zero dividend preference share

The net asset value per zero dividend preference share is based on the net assets attributable to the zero dividend preference shares in the Subsidiary of £31,709,925 (2001: £29,307,000) and on the 52,603,865 zero dividend preference shares in the Subsidiary in issue at 31 December 2002 (2001: 52,603,865).

#### c Net asset value per unit

The net asset value per unit was 154.96p at 31 December 2002. Each unit comprises one ordinary share of 5p in the Company and one zero dividend preference share of 50p in Henderson High Income Trust Securities plc.

<b>20 Reconciliation of operating revenue to net cash inflow</b>	<b>2002</b>	<b>2001</b>
	<b>£'000</b>	<b>£'000</b>
Net revenue before interest payable and taxation	<b>5,988</b>	5,775
Decrease in accrued income	<b>52</b>	218
Stock dividends	<b>(165)</b>	–
Decrease/(increase) in other debtors	<b>1</b>	(3)
Decrease in creditors	<b>(4)</b>	(6)
Tax on investment income included in income from UK companies	<b>(7)</b>	(142)
Management fee charged to capital	<b>(495)</b>	(448)
<b>Net cash inflow from operating activities</b>	<b>5,370</b>	5,394

# Henderson High Income Trust plc

## Notes to the Accounts

continued

	1 January 2002 £'000	Cash flow £'000	Exchange movement £'000	31 December 2002 £'000
<b>21 Analysis of changes in net debt</b>				
Cash at bank	1,000	(1,000)	–	–
Bank overdrafts	–	(252)	–	(252)
Debt due within one year	(22,207)	3,518	–	(18,689)
<b>Total</b>	<b>(21,207)</b>	<b>2,266</b>	<b>–</b>	<b>(18,941)</b>

### 22 Contingent liabilities

There were no partly paid shares or underwriting commitments at 31 December 2002 (2001: £nil).

### 23 Related party transactions

Under the terms of an agreement dated 23 November 1994 the Company appointed wholly owned subsidiary companies of Henderson Global Investors (Holdings) plc ("Henderson") to provide investment management, UK custodial, accounting, administrative and company secretarial services. Details of the fee arrangements for these services are given on page 14 in the Report of the Directors. The total of the fees payable under this agreement by the Company to Henderson in respect of the year ended 31 December 2002 was £713,000 excluding VAT (2001: £645,000) of which £nil was outstanding at 31 December 2002 (2001: £nil).

In addition to the above services, Henderson has provided the Group with share plan marketing and administration services during the year. The total fees payable for these services for the year ended 31 December 2002 (excluding VAT) amounted to £20,000 (2001: £8,000). At 31 December 2002 £10,000 was outstanding (2001: £15,000).

### 24 Group structure and arrangements

Under the terms of the loan and subscription agreements between the two companies, Henderson High Income Trust Securities plc has lent its assets to the Company, on an interest free basis, and these are managed in accordance with the Company's investment policy (as summarised on page 1 of this document). The terms of the loan require it to be repaid no later than 30 September 2005, the redemption date of the zero dividend preference shares. The Company has undertaken that, no later than 30 September 2005, it will subscribe for such number of ordinary shares in Henderson High Income Trust Securities plc as will be necessary to provide Henderson High Income Trust Securities plc (after taking into account the repayment of that company's loan to its Parent) with sufficient funds to meet the final capital entitlements of the zero dividend preference shareholders. In this way the whole of the Group's net assets will be available to meet the repayment obligation in respect of the zero dividend preference shares. At 31 December 2002 the amount provided for in this respect amounted to £5,408,000 (2001: £3,005,000) (see note 13 on page 28).

The zero dividend preference shares of Henderson High Income Trust Securities plc had an initial capital entitlement of 50p per share at 17 August 2000 which increases at a daily rate, equivalent to a compound annual rate of 8.2% per annum, so as to reach a final capital entitlement of 74.87p per share on 30 September 2005.

The loan and subscription agreements between the two companies include covenants and undertakings by the Company in favour of Henderson High Income Trust Securities plc in respect of increases in borrowings and other actions that could limit the ability of the Company to meet its obligations to Henderson High Income Trust Securities plc.

# Henderson High Income Trust Securities plc

## Report of the Directors

The directors present the audited accounts of the Company and their report for the year ended 31 December 2002.

### Incorporation

The Company is a wholly owned Subsidiary of Henderson High Income Trust plc, an investment company registered in England and Wales. The directors of the Company are the same as the directors of Henderson High Income Trust plc. The Company has no employees and all of the Company's ongoing expenses are met by Henderson High Income Trust plc.

The zero dividend preference shares are listed on the Official List of the UK Listing Authority and traded on the London Stock Exchange. Dealings in the shares began on 17 August 2000.

### Voting Rights

The ordinary shareholders have the right to attend and vote at general meetings of the Company. The zero dividend preference shareholders do not have the right to receive notice of general meetings of the Company or to attend or vote at them, unless the business of the meeting includes a resolution to alter any object set out in the memorandum of association of the Company or a resolution varying or abrogating the special rights attached to the zero dividend preference shares.

### Status

The Company is an investment company as defined in section 266 of the Companies Act 1985.

### Activities and Business Review

A review of the business of the Group is given in the Chairman's Statement and in the Investment Review of the Parent company.

### Revenue

The Company had neither income nor expenses. Accordingly, its net revenue after taxation for the year was £nil. No distributions were made in the year under review (2001: £nil).

### Assets

The net assets of the Company at 31 December 2002 amounted to £31,710,000 (2001: £29,307,000). At 31 December 2002 the net asset value per zero dividend preference share was 60.28p (2001: 55.71p). Ordinary

shares had £nil net assets attributable to them in the year under review (2001: £nil).

### Directors

The directors of the Company throughout the year were Mr P C J Dalby, Mr C Dunkerley, Mr W D Eason and the Rt Hon Sir John Stanley.

Sir Anthony Beaumont-Dark and Mr J S Curtis both retired following the conclusion of the AGM held on 1 May 2002.

The directors retiring by rotation at the forthcoming annual general meeting are Mr W D Eason and Sir John Stanley, both of whom, being eligible, offer themselves for re-election.

Mr P C J Dalby is a director – Cazenove Fund Management, part of Cazenove Group plc, the Company's stockbroker.

There were no contracts during or at the end of the year in which a director of the Company is or was materially interested and which is or was significant in relation to the Company's business. No director has a contract of service with the Company. No fees are paid to the directors for their services.

The directors' interests in the share capital of the Company are shown in the table below:

	<b>31 December 2002</b>	31 December 2001
	<b>Zero dividend preference shares of 50p</b>	Zero dividend preference shares of 50p
<i>With beneficial interest:</i>		
Sir Anthony Beaumont-Dark	<b>64,000*</b>	64,000
J S Curtis	<b>7,000*</b>	7,000
P C J Dalby	<b>17,500</b>	17,500
C Dunkerley	–	–
W D Eason	<b>22,500</b>	22,500
Sir John Stanley	<b>2,840</b>	2,840
No director had an interest in the ordinary share capital of the Company.		
The zero dividend preference shares indicated include some which are held within units.		
Each unit comprises one ordinary share of 5p in Henderson High Income Trust plc and one zero dividend preference share of 50p in Henderson High Income Trust Securities plc.		
There have been no changes in the directors' interests between the end of the financial year and the date of this report.		
The directors' interests in the ordinary share capital of the Parent are set out in the report of the directors of that company.		
*as at date of retirement.		

# Henderson High Income Trust Securities plc

## Report of the Directors

continued

### Corporate Governance

The affairs of the Company and its Parent, Henderson High Income Trust plc, are managed as far as possible as one. Accordingly, the directors review corporate governance matters on a Group basis and the necessary structures and procedures are not replicated for the Subsidiary. For a full review of corporate governance arrangements, please refer to the annual report of Henderson High Income Trust plc.

### Investment Manager

The terms of the management agreement between Henderson High Income Trust plc, the Company's Parent undertaking, subsidiaries of Henderson Global Investors (Holdings) plc and Cogent Investment Operations Limited are set out on in the annual report of Henderson High Income Trust plc, within the report of the directors. The management agreement encompasses the Company as a Subsidiary of Henderson High Income Trust plc and there are no separate terms.

### Duration of the Company

The Company has a fixed life to 30 September 2005. The directors will convene an extraordinary general meeting for 30 September 2005, or the immediately preceding business day, at which a special resolution will be proposed to wind up the Company voluntarily, unless by an earlier special resolution the Company has decided otherwise.

### Authority to Allot Shares

At the extraordinary general meeting of the Company held on 20 July 2000, the directors were authorised, in accordance with section 80 of the Companies Act 1985 as amended ("the Act"), to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80) up to an aggregate nominal amount of £65,000,000, such authority to expire on 20 July 2005.

The directors were also empowered, pursuant to section 95 of the Act, to allot equity securities (as defined in section 94(2) of the Act) for cash as if section 89(1) of the Act did not apply, up to the aggregate nominal amount set out above, this power including the allotment of zero dividend preference shares. This authority expires on 20 July 2005.

The Board has not exercised the above authorities other than in respect of the issue of 52,603,865 zero dividend preference shares on 16 August 2000 as part of the capital reorganisation of Henderson High Income Trust plc. The directors may issue new zero dividend preference shares pursuant to these powers if investor demand for them is strong. However, the directors will issue new zero dividend preference shares only if the cover of the existing zero dividend preference shares remains above the requisite level of one and a half times.

### Notice of Annual General Meeting

As provided in the articles of association of the Company, the holders of the zero dividend preference shares do not have the right to receive notice of general meetings unless, inter alia, the business of the meeting would vary the rights attached to the zero dividend preference shares. For information only, the business to be transacted at the annual general meeting will consist of: a) receiving the report and accounts of the Company; b) re-electing directors of the Company; c) re-appointing Deloitte & Touche as auditors and authorising the directors to determine their remuneration; and d) authorising the Company to make market purchases of zero dividend preference shares within the limits set out below.

### Share Buy-Backs

At the annual general meeting of the Company held on 1 May 2002, the Company was authorised to make market purchases of up to 7,885,319 of its own zero dividend preference shares (being 14.99 per cent of the issued zero dividend preference share capital). This authority has not been exercised.

The Board wishes to seek a fresh authority and, accordingly, a special resolution will be proposed at the forthcoming annual general meeting to give the Company authority to make market purchases of up to 7,885,319 of its own zero dividend preference shares of 50p (being 14.99 per cent of the issued zero dividend preference share capital as at 5 March 2003). The directors will exercise this authority only when such shares can be purchased at a price that represents a discount to the then net asset value per share or if to do so would result (together with any related purchase of ordinary shares in

# Henderson High Income Trust Securities plc

## Report of the Directors

continued

Henderson High Income Trust plc) in an increase in the net asset value of the ordinary shares in Henderson High Income Trust plc. Such repurchases will be made only if the directors consider them to be in the best interests of the Company and the zero dividend preference shareholders. The authority will lapse unless renewed at the annual general meeting due to be held in 2004.

The maximum price which may be paid for a zero dividend preference share will not be more than 5 per cent above the average of the middle market values of the shares, as taken from the London Stock Exchange Daily Official List, for the five business days preceding the date of purchase. The minimum price will be 50p, being the nominal value per share. Any shares purchased by the Company will be cancelled and the number of zero dividend preference shares in issue will be reduced accordingly.

### Auditors

A resolution to reappoint Deloitte & Touche as auditors to the Company, and to authorise the directors to determine their remuneration, will be proposed at the forthcoming annual general meeting.

### Expenses

All the Company's expenses are met by Henderson High Income Trust plc. A statement of the Parent company's policy for the payment of suppliers is set out in the Directors' Report of the Parent.

By order of the Board

John Ellman-Brown  
For and on behalf of  
Henderson Secretarial Services Limited  
Secretary  
*5 March 2003*

## Statement of Directors' Responsibilities

### in respect of the Accounts

The directors are required by UK company law to prepare accounts for each financial year that give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the net revenue of the Company for that period.

The directors confirm that suitable accounting policies have been used and applied consistently and that reasonable and prudent judgements and estimates have been made in the preparation of the accounts for the year

ended 31 December 2002. The directors also confirm that applicable accounting standards have been followed and that the accounts have been prepared on a going concern basis.

The directors are responsible for keeping proper accounting records, for the system of internal control, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# Report of the Independent Auditors

## to the members of Henderson High Income Trust Securities plc

We have audited the financial statements of Henderson High Income Trust Securities plc for the year ended 31 December 2002 which comprise the statement of total return, the balance sheet and the related notes 1 to 11. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective Responsibilities of Directors and Auditors

As described in the Statement of Directors' Responsibilities, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements, auditing standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. 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 transactions with the Company is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on

the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section and 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 United Kingdom 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 circumstances of the Company, 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 affairs of the Company as at 31 December 2002 and its total return for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.

DELOITTE & TOUCHE  
Chartered Accountants and Registered Auditors  
London

5 March 2003

*Neither an audit nor a review provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial statements since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area.*

*Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.*

# Henderson High Income Trust Securities plc

## Statement of Total Return

for the year ended 31 December 2002

Notes	Year ended 31 December 2002			Year ended 31 December 2001		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
2						
Accrued redemption premium receivable from Parent company	-	2,403	2,403	-	2,221	2,221
<b>Gross revenue and capital gains</b>	<b>-</b>	<b>2,403</b>	<b>2,403</b>	<b>-</b>	<b>2,221</b>	<b>2,221</b>
3						
Administrative expenses	-	-	-	-	-	-
<b>Net return on ordinary activities before taxation</b>	<b>-</b>	<b>2,403</b>	<b>2,403</b>	<b>-</b>	<b>2,221</b>	<b>2,221</b>
Taxation on net return on ordinary activities	-	-	-	-	-	-
<b>Net return on ordinary activities after taxation</b>	<b>-</b>	<b>2,403</b>	<b>2,403</b>	<b>-</b>	<b>2,221</b>	<b>2,221</b>
Appropriations in respect of non-equity shares: zero dividend preference shares	-	(2,403)	(2,403)	-	(2,221)	(2,221)
<b>Transfer to reserves</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
4						
<b>Return per share:</b>						
Ordinary	-	-	-	-	-	-
Zero dividend preference	-	4.57p	4.57p	-	4.22p	4.22p

The revenue column of this statement represents the revenue account of the Company.

The notes on pages 39 and 40 form part of these accounts.

# Henderson High Income Trust Securities plc

## Balance Sheet

at 31 December 2002

Notes	2002 £'000	2001 £'000
<b>Current assets</b>		
5 Debtors	31,710	29,307
<b>Net current assets</b>	<b>31,710</b>	29,307
<b>Net assets</b>	<b>31,710</b>	29,307
<b>Capital and reserves</b>		
6 Called-up share capital	26,302	26,302
7 Reserve for redemption premium	5,408	3,005
	<b>31,710</b>	29,307
<b>Shareholders' funds attributable to:</b>		
Equity shareholders	-	-
Non-equity shareholders	31,710	29,307
	<b>31,710</b>	29,307
<b>Net asset value per:</b>		
Ordinary share	-	-
8 Zero dividend preference share	<b>60.28p</b>	55.71p

The accounts were approved by the directors on 5 March 2003, and signed on their behalf by:

W D Eason  
Director

The notes on pages 39 and 40 form part of these accounts.

# Henderson High Income Trust Securities plc

## Notes to the Accounts

### 1 Accounting policy

#### Basis of accounting

The accounts have been prepared on the historical cost basis of accounting. The accounts have been prepared in accordance with applicable accounting standards and with the Statement of Recommended Practice *Financial Statements of Investment Trust Companies* ("the SORP") dated December 1995. All of the Company's operations are of a continuing nature.

The Company is a wholly owned Subsidiary of another United Kingdom company.

### 2 Accrued redemption premium receivable from Parent company

Amount due from Henderson High Income Trust plc accrued in the year in respect of the subscription for ordinary shares to be made in September 2005 at the redemption of the Company's zero dividend preference shares.

### 3 Administrative expenses

All the expenses of Henderson High Income Trust Securities plc are met by Henderson High Income Trust plc.

### 4 Return per share

Capital return per zero dividend preference share is based on appropriations in respect of non-equity shares of £2,403,000 (2001: £2,221,000) and on the 52,603,865 (2001: 52,603,865) zero dividend preference shares in issue during the year.

5 Debtors	2002 £'000	2001 £'000
Amounts falling due after more than one year:		
Loan to Henderson High Income Trust plc	<b>26,302</b>	26,302
Amount due from Henderson High Income Trust plc accrued in respect of the subscription for ordinary shares	<b>5,408</b>	3,005
	<b>31,710</b>	29,307

The loan to Henderson High Income Trust plc is made on an interest free basis and is repayable in full on 30 September 2005.

Henderson High Income Trust plc has undertaken that, no later than 30 September 2005, it will subscribe for such number of ordinary shares in the Company as is necessary on 30 September 2005 (after taking into account the monies to be received on repayment of the loan) to provide the Company with sufficient funds to meet the final capital entitlements of the zero dividend preference shareholders. The amount required, in respect of the 52,603,865 zero dividend preference shares in issue at 31 December 2002, will be £13,084,000. The redemption reserve for this amounted to £5,408,000 at 31 December 2002.

# Henderson High Income Trust Securities plc

## Notes to the Accounts

continued

<b>6 Share capital</b>	<b>2002</b>	<b>2001</b>
	<b>£</b>	<b>£</b>
<b>Authorised</b>		
30,000,000 ordinary shares of 50p each	<b>15,000,000</b>	15,000,000
100,000,000 zero dividend preference shares of 50p each	<b>50,000,000</b>	50,000,000
	<b>65,000,000</b>	65,000,000
<b>Allotted, issued and fully paid</b>		
4 ordinary shares of 50p each	<b>2</b>	2
52,603,865 zero dividend preference shares of 50p each	<b>26,301,933</b>	26,301,933
	<b>26,301,935</b>	26,301,935

The zero dividend preference shares had an initial capital entitlement of 50p per share at 17 August 2000 which increases at a daily compound rate of 0.021594435%, equivalent to an annual compound rate of 8.2%, so as to reach a final capital entitlement of 74.87p per share on 30 September 2005.

<b>7 Reserves</b>	<b>Reserve for redemption premium of the zero dividend preference shares</b>	<b>Revenue reserve</b>
	<b>£'000</b>	<b>£'000</b>
Reserves at 1 January 2002	<b>3,005</b>	–
Accrued redemption premium for the period	<b>2,403</b>	–
<b>Reserves at 31 December 2002</b>	<b>5,408</b>	–

### **8 Net asset value per share**

The net asset value per zero dividend preference share is based on the funds attributable to the zero dividend preference shares of £31,710,000 (2001: £29,307,000) and on the 52,603,865 zero dividend preference shares in issue at 31 December 2002 (2001: 52,603,865).

### **9 Parent undertaking**

The Company is a wholly owned Subsidiary undertaking of Henderson High Income Trust plc, an investment company registered in England and Wales and operating in the United Kingdom. The accounts of Henderson High Income Trust plc for the year ended 31 December 2002 are set out on pages 21 to 32 of that company's annual report and accounts.

### **10 Cash flow statement**

The Company has taken advantage of the exemptions allowed by FRS 1 not to prepare a cash flow statement as it is a wholly owned Subsidiary of Henderson High Income Trust plc.

### **11 Related Party Transactions**

The Company has taken advantage of the exemption from disclosure of transactions with group companies given by FRS 8.

# Henderson High Income Trust plc

## Notice of Annual General Meeting

Notice is hereby given that the fourteenth Annual General Meeting of Henderson High Income Trust plc will be held at 4 Broadgate, London EC2M 2DA on Wednesday 30 April 2003 at 12.30 pm for the transaction of the following business:

### Ordinary Business

- 1 To approve the directors' remuneration report for the year ended 31 December 2002.
- 2 To receive the report of the directors and the audited accounts for the year ended 31 December 2002.
- 3 To re-elect Mr W D Eason as a director of the Company.
- 4 To re-elect Sir John Stanley as a director of the Company.
- 5 To re-appoint the auditors, Deloitte & Touche, and to authorise the directors to determine their remuneration.

### Special Business

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

#### *as an Ordinary Resolution*

- 6 THAT, in accordance with Article 97 of the Articles of Association of the Company, the maximum aggregate amount of the fees that may be paid to the directors of the Company pursuant to that Article 97 (excluding amounts payable under any other provision of the Articles of Association of the Company) be and is hereby increased from £50,000 to £100,000.

#### *as Special Resolutions*

- 7 THAT the directors be and are hereby empowered pursuant to section 95 of the Companies Act 1985 ("the Act") in substitution for all subsisting powers under that section, to allot equity securities (within the meaning of section 94 of the Act) wholly for cash, pursuant to the authority conferred on them on 16 August 2000 in accordance with section 80 of the Act, as if sub-section (1) of section 89 of the Act did

not apply to any such allotment PROVIDED THAT this power shall be limited:

- (a) to the allotment of equity securities whether by way of a rights issue, open offer or otherwise to ordinary shareholders and/or holders of any other securities in accordance with the rights of those securities where the equity securities respectively attributable to the interests of all ordinary shareholders and/or such holders are proportionate to the respective numbers of ordinary shares and such equity securities held by them (or are otherwise allotted in accordance with the rights attaching to such equity securities) subject in either case to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or local or practical problems under the laws of, or the requirements of, any regulatory body or any stock exchange in any territory or otherwise howsoever;
- (b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to a maximum aggregate nominal value of £277,144 (being 10% of the Company's issued ordinary share capital on 5 March 2003); and
- (c) to the allotment of equity securities at a price not less than the Net Asset Value per share

and shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution save that the directors may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.

- 8 THAT the Company be and is hereby generally and unconditionally authorised in accordance with section 166 of the Act to make market purchases (within the meaning of section 163

# Henderson High Income Trust plc

## Notice of Annual General Meeting

continued

of the Act) of ordinary shares of 5p each in the capital of the Company ("ordinary shares") upon and subject to the following conditions:

- (a) the maximum number of ordinary shares hereby authorised to be purchased shall be 8,308,786 (being 14.99% of the ordinary shares in issue at 5 March 2003, the date of this Notice of Annual General Meeting);
- (b) the maximum price (exclusive of expenses) which may be paid for an ordinary share shall not exceed 105% of the average of the middle market quotations for the ordinary shares as taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the date of purchase or such other amount as may be specified by the UK Listing Authority from time to time;
- (c) the minimum price (exclusive of expenses) which may be paid for an ordinary share shall be 5p, being the nominal value per ordinary share; and
- (d) this authority shall expire at the conclusion of the next Annual General Meeting of the Company, save that the Company may, before such expiry, enter into a contract to purchase ordinary shares under which such purchases will or may be completed or executed wholly or partly after the expiration of this authority and may make a purchase of ordinary shares in pursuance of any such contract.

By order of the Board

John Ellman-Brown  
For and on behalf of  
Henderson Secretarial Services Limited  
Secretary  
5 March 2003

### Notes

- 1** All members of the Company are entitled to attend and vote at the Annual General Meeting. A shareholder may appoint one or more proxies to attend and, on a poll, vote on his or her behalf. A proxy need not be a member of the Company.
- 2** A form of proxy is enclosed. To be valid the form of proxy must be completed and deposited at the office of the Company's Registrar (Computershare Investor Services PLC, PO Box 1075, Bristol BS99 3FA) not less than 48 hours before the time appointed for holding the meeting. The return of the form of proxy duly completed will not preclude a member from attending and voting in person at the meeting.
- 3** Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, only those shareholders registered in the register of members of the Company at close of business on 28 April 2003 shall be entitled to attend and/or vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after close of business on 28 April 2003 shall be disregarded in determining the rights of any person to attend or vote at the meeting.  
  
In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names stand in the register in respect of the joint holding.
- 4** The register of directors' interests, kept by the Company in accordance with the requirements of the Companies Act 1985, will be available for inspection at the meeting.
- 5** By attending the meeting, members and their proxies and representatives are understood by the Company to have confirmed their agreement to receive any communications (including communications relating to the Company's securities) made at the meeting.

*Registered Office:*

4 Broadgate, London EC2M 2DA

## Ten Year Record

Year to 31 December	Total net assets	Net asset value per ordinary 5p share	Net asset value per unit	Market price per ordinary 5p share	Market price per unit	Dividends per ordinary share/unit
1993	£33.5m	–	137.2p <sup>A</sup>	–	146.0p	6.00p
1994	£28.7m	–	119.7p <sup>A</sup>	–	120.0p	6.10p
1995	£32.7m	–	131.0p	–	126.0p	6.40p
1996	£72.9m <sup>B</sup>	–	138.6p <sup>B</sup>	–	120.5p	6.45p
1997	£86.9m	–	165.2p	–	153.0p	6.70p
1998	£92.4m	–	175.6p	–	160.0p	6.90p
1999	£92.6m	–	176.1p	–	149.5p	7.10p
2000	£99.0m	136.7p	188.2p	126.5p	179.5p	8.55p
2001	£97.2m	127.6p	183.3p	131.3p	195.8p	9.90p
<b>2002</b>	<b>£84.2m</b>	<b>94.7p</b>	<b>155.0p</b>	<b>97.5p</b>	<b>161.8p</b>	<b>9.90p</b>

The net asset value and market price figures shown in the "per unit" columns above prior to the year 2000 are in respect of the former ordinary shares of 25p. The figures for the dividends per ordinary share relate to the ordinary shares of 25p each up to 15 August 2000 and to the ordinary shares of 5p each thereafter.

<sup>A</sup>Fully diluted.

<sup>B</sup>Restated to include the assets and earnings of Henderson Highland Trust plc.

## A Brief History

The Company was launched in November 1989 with the name TR High Income Trust PLC. The share capital comprised ordinary shares of 25p each and subscription shares of 0.01p each, there being one subscription share for every five ordinary shares. In 1991 further shares of both classes were issued by way of a rights issue. The conversion of the subscription shares into ordinary shares was completed in 1996.

In March 1997 the Company changed its name to Henderson High Income Trust plc and announced proposals for a merger with Henderson Highland Trust plc. The merger, by means of a Scheme of Arrangement under section 425 of the Companies Act 1985, became effective on 23 April 1997 and new ordinary shares of 25p each were issued to the former Highland shareholders.

On 16 August 2000 the Company's capital was reorganised. In place of the ordinary shares of 25p each in issue at 15 August 2000, shareholders received one ordinary share of 5p each in the Company and one zero dividend preference share of 50p each in a new Subsidiary company, Henderson High Income Trust Securities plc. Shareholders are able to hold their investment in the form of units, each unit comprising one ordinary share of 5p in the Parent and one zero dividend preference share of 50p in the Subsidiary.

# General Shareholder Information

## Release of Results

The full year results were announced on 6 March 2003. The half year results will be announced in early August.

## Annual General Meeting

The AGM of Henderson High Income Trust plc will be held in London at 12.30pm on 30 April 2003. The notice of this meeting setting out the business that will be proposed is on pages 41 and 42.

## Dividend Payment Dates

Dividends are paid on the ordinary shares quarterly, on the following dates:

- First interim at 31 July
- Second interim at 31 October
- Third interim at 31 January
- Fourth interim at 30 April

This timetable relates to both the ordinary shares of 5p and the units (each of which includes one ordinary share of 5p).

## Dividend Payments

Dividends can be paid to ordinary shareholders and unitholders by means of BACS (Bankers' Automated Clearing Services); mandate forms for this purpose are available from the Registrar. Alternatively, shareholders can write to the Registrar (the address is given on page 47) to give their instructions; these must include the bank account number, the bank account title and the sort code of the bank to which payments are to be made.

## Holdings in Units

Unitholders who wish to split units into their constituent elements, or holders of the ordinary shares and the zero dividend preference shares who wish to form units from their shareholdings, can do so at any time on application to the Registrar. However, only units or shares held in certificated form can be split or combined in this way.

## Share Price Listings

The market prices of the Company's ordinary shares and units, and of the zero dividend preference shares in the Subsidiary, are published daily in the Financial Times, which also shows figures for the estimated net asset values and the discounts/premiums applicable to each class of share and to the units. Some of this information is published in other leading newspapers.

## Internet

Details of the market prices and net asset values of the shares and the units can be found on the Company website. The address is **[www.hendersonhighincome.com](http://www.hendersonhighincome.com)**

Shareholders who hold their shares or units in certificated form can check their holdings with the Registrar, Computershare Investor Services PLC, (via **[www.computershare.com](http://www.computershare.com)**). Please note that to gain access to your details on this site you will need the holder reference number stated on the top left hand corner of your share certificate.

## ISIN/SEDOL numbers

The ISIN code/SEDOL (Stock Exchange Daily Official List) number of the Company's ordinary shares is GB0009580571. The number of the units is GB0009580688 and the number of the zero dividend preference shares in Henderson High Income Trust Securities plc is GB0009444216.

## Nominee Share Code

Where notification has been provided in advance, the Company will arrange for copies of shareholder communications to be provided to the operators of nominee accounts. Nominee investors may attend general meetings and speak at meetings when invited to do so by the Chairman.

Investors in the Henderson Investment Trust Share Plan, Henderson ISA and Henderson Transfer PEP receive all shareholder communications. A letter of direction is provided to facilitate voting at general meetings of the Company.

# General Shareholder Information

continued

## Disability Act

Copies of this Report and Accounts and other documents issued by the Company are available from the company secretary. If needed, copies can be made available in a variety of formats, including Braille, audio tape or larger type as appropriate.

You can contact the Registrar, Computershare Investor Services PLC, which has installed telephones to allow speech and hearing impaired people who have their own telephone to contact them directly, without the need for an intermediate operator. Specially trained operators are available during normal business hours to answer queries via this service.

Alternatively, if you prefer to go through a 'typetalk' operator (provided by The Royal National Institute for Deaf People) the number is 0800 959 598.

For investors through the Henderson Investment Trust Share Plan, Henderson ISA or Henderson Transfer PEP, a textphone telephone service is available on 020 7850 5406. This service is available during normal business hours.

## Capital Gains Tax: market prices of the Group's shares and units

The market prices of the Group's shares and units at the close of business on 17 August 2000, the first day of dealings in the shares and units following the capital reorganisation that came into effect on 16 August 2000, were as follows:

- Ordinary shares of 5p in Henderson High Income Trust plc: 117p
- Zero dividend preference shares of 50p in Henderson High Income Trust Securities plc: 50p
- Units (each unit comprising one ordinary share of 5p in Henderson High Income Trust plc and one zero dividend preference share of 50p in Henderson High Income Trust Securities plc): 165p

**The calculation of the tax on chargeable gains will depend on personal circumstances. If you are in any doubt about your personal tax position, you are recommended to contact your professional adviser.**

# Analysis of Shareholders

at 31 December 2002

	Number of holders of ordinary shares	Number of ordinary shares held	Number of holders of units	Number of units held
<b>Henderson High Income Trust plc</b>				
*Individual holders	594	4,421,659	2,185	8,883,909
**Institutional holders	917	23,202,922	712	18,920,375
	<u>1,511</u>	<u>27,624,581</u>	<u>2,897</u>	<u>27,804,284</u>
	Number of holders of zero dividend preference shares	Number of zero dividend preference shares held	Number of holders of units	Number of units held
<b>Henderson High Income Trust Securities plc</b>				
*Individual holders	445	4,304,307	2,185	8,883,909
**Institutional holders	450	20,495,274	712	18,920,375
	<u>895</u>	<u>24,799,581</u>	<u>2,897</u>	<u>27,804,284</u>

Each unit comprises one ordinary share of 5p in Henderson High Income Trust plc and one zero dividend preference share of 50p in Henderson High Income Trust Securities plc. There are 55,428,865 ordinary shares of 5p and 52,603,865 zero dividend preference shares in issue, including those held within units as above.

\*Individual holders include participants in the Henderson Investment Trust Share Plan.

\*\*Institutional holders include nominee and other companies which hold shares on behalf of individual investors, including PEP and ISA participants.

# Directors and other Information

The information set out below relates to both Henderson High Income Trust plc and Henderson High Income Trust Securities plc:

## Directors

W D Eason (Chairman)  
P C J Dalby  
C Dunkerley  
The Rt Hon Sir John Stanley MP


## Registered Office

4 Broadgate  
London EC2M 2DA  
Telephone: 020 7818 1818  
Facsimile: 020 7818 1819

## Registered Numbers

Both companies are registered as investment companies in England and Wales:  
Henderson High Income Trust plc No. 2422514  
Henderson High Income Trust Securities plc No. 3970857

## Investment Manager

Henderson Global Investors Limited, an  Company authorised and regulated by the Financial Services Authority

Portfolio Manager: A A Crooke  
Deputy Portfolio Manager: J H Henderson

## Secretary

Henderson Secretarial Services Limited,  
represented by J S Ellman-Brown ACIS

## Registrar

Computershare Investor Services PLC  
PO Box 435  
Owen House  
8 Bankhead Crossway North  
Edinburgh EH11 4BR  
Telephone: 0870 702 0010

## Auditors

Deloitte & Touche  
Stonecutter Court  
1 Stonecutter Street  
London EC4A 4TR

## Stockbrokers

Cazenove Group plc  
12 Tokenhouse Yard  
London EC2R 7AN

## Solicitors

Slaughter and May  
One Bunhill Row  
London EC1Y 8YY

# Glossary of Terms

## **Ordinary shares**

Confer certain rights to the holder as laid down in the Articles of Association. These include entitlements to any income distributions paid by the company, to all undistributed net income if the company is wound up and certain voting rights. They rank for payment of capital after repayment of borrowings and the entitlements of all other share classes.

## **Zero dividend preference shares**

Confer certain rights to the holder as laid down in the Articles of Association. These include a right to a predetermined growth in the capital entitlement of the shares that increase at an annual rate, compounded daily, to a final preferential entitlement when the company is wound up. They also have certain voting rights. They rank in priority to the rights of the ordinary shares as regards capital repayment, but have no rights to income distributions.

## **Dividend Yield**

The annual dividend expressed as a percentage of the share price.

## **Net Asset Value**

The value of the total assets less the liabilities. Liabilities for this purpose include both current and long-term liabilities. To calculate the net asset value per ordinary share, divide the net asset value by the number of shares in issue.

## **Discount**

The amount by which the market price per share of an investment trust company is lower than the net asset value per share. The discount is normally expressed as a percentage of the net asset value per share.

## **Premium**

The amount by which the market price per share of an investment trust company exceeds the net asset value per share. The premium is normally expressed as a percentage of the net asset value per share.

## **Gearing**

Total Assets including all debt being used for investment purposes (irrespective of how long the debt has to run until repayment) divided by shareholders' funds.

# Ways & means.

**There are various ways of investing in Henderson High Income Trust plc – you can act quickly with a lump sum, invest gradually with monthly payments or enjoy a tax-efficient ISA.**

The Trust's shares are easily traded on the stock market. But there are also benefits in income reinvestment, regular saving and tax-efficient wrappers. Here are some options to suit your own personal pace of investing.

**The Henderson Investment Trust Share Plan** is a straightforward savings scheme with a minimum lump sum investment of £500 or regular savings from £50 a month.

A **Henderson ISA** allows you to save tax-efficiently up to £7,000 p.a. with a minimum lump sum of £2,000 and regular savings from £100 a month.

A **Henderson Transfer PEP or ISA** allows you to transfer your existing PEP or ISA funds into the Trust. Investments retain their tax-efficient status during and after transfer.

To find out more, visit

[www.hendersonhighincome.com](http://www.hendersonhighincome.com)

or call our Investor Services Department free on

**0800 106 106**

Please quote reference REPORT.

You can also write to us at Henderson Global Investors, FREEPOST, Newbury RG14 2ZZ (no stamp required) or contact your professional adviser.

## Henderson Investment Trusts

Please remember that past performance is not a guide to future performance. The value of your investment can fall as well as rise and you may not get back the amount originally invested. Tax assumptions may change if the law changes and the value of tax relief will depend on individual circumstances. Henderson Global Investors is the name under which Henderson Global Investors Limited, Henderson Investment Funds Limited, Henderson Fund Management plc and Henderson Administration Limited (all authorised and regulated by the FSA) provide investment products and services. We may record telephone calls for our mutual protection and to improve customer service. 4 Broadgate, London EC2M 2DA.



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