

# Henderson High Income Trust plc

Interim Report for the half year ended 30 June 2006



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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.

Approximately three quarters of the Company's assets are currently 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. The Company has an active policy of using appropriate levels of gearing to enhance returns.

## Highlights

Per ordinary share	Half year ended 30 June 2006	Half year ended 30 June 2005*	Year ended 31 December 2005
Net asset value	<b>158.70p</b>	140.44p	155.26p
Market price	<b>152.75p</b>	129.75p	153.75p
Revenue earnings	<b>4.04p</b>	4.93p	9.33p

\*Restated in accordance with accounting policy at 31 December 2005.

### Performance as determined by the AITC

Total return (with net dividends reinvested)	6 months %	12 months %
Market price per ordinary share	+2.6	+24.1
Net asset value per ordinary share	+3.5	+18.5
FTSE All-Share Index	+6.1	+19.7
FTA Government All Stocks Index†	-1.7	+1.4

Source: AITC Services Limited. See Glossary for definition.

†Source: Datastream, gross dividends reinvested.

### Performance Dividends

Net dividend yield at 30 June 2006	%
Henderson High Income Trust plc	5.1
FTSE All-Share Index†	3.1
FTA Government All Stocks Index (gross)†	4.5

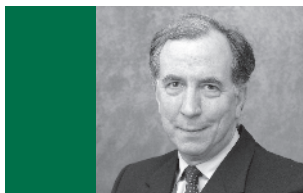
†Source: Datastream

A first interim dividend of 1.9375p (2005: 2.475p) was paid on 28 July 2006.

A second interim dividend of 1.9375p (2005: 2.475p) has been declared payable on 31 October 2006 to shareholders registered at the close of business on 22 September 2006. The shares will be quoted ex-dividend from 20 September 2006.

Interim dividends are recognised in the period in which they are paid (see note 4 on page 10).

## Chairman's Statement



**Hugh Twiss**

This is my first statement as your Chairman and whilst I am glad to be able to report substantial growth since this time last year, there has sadly been little change in the value of our assets in the first half of this year, as well as an underperformance against the FTSE All-Share Index. The reasons for this I will cover later.

However, given the strong performance seen over the previous few years and the investment environment of recent months, such a performance, particularly for a Company like ours with its emphasis on generating and paying out a high level of income, is neither surprising nor something to be ashamed about.

My predecessor, Bill Eason, and fellow director, Patrick Dalby, who retired after the recent AGM, made a significant contribution to our Company and we will miss their wise counsel. On behalf of us all, I would like to thank them for their valuable service to the Company and its forerunners over many years.

### Portfolio

The broader market in the UK, with the exception of the mining sector, has struggled all year and income yielding shares, in particular, have been dull. This is probably due to the expectation that interest rates are likely to rise and bond yields have, therefore, risen over the first half of the year. Our portfolio, as I said, has underperformed the UK market, although with over 20% invested in bonds, which fell in value over the period, this outcome is not too surprising.

The net asset value total return per ordinary share was 3.49%, whilst the FTSE All-Share Index returned 6.11%; both figures include the reinvestment of income.

As I highlighted earlier, the mining sector, with the underlying rise in metal prices driving the sector to new highs in early May before encountering a sell-off later in that month, has been the star of the market. However, we have had little exposure to mining and also oil stocks, as neither sector has been a generous dividend payer in the past, preferring to invest their profits rather than distribute to shareholders.

April was a difficult month for our portfolio when mining shares were very strong, but much of this appreciation has been

subsequently given back and there must be the risk that commodity prices are being driven more by financial speculation than fundamentals. Elsewhere financials, such as banks and insurers, have been disappointing. We have taken this underperformance as an opportunity to increase our holdings in both these sectors as we feel they represent good value.

The portfolio has otherwise changed little over the period.

### Earnings and Dividends

Over the first half of the year, the revenue earnings of the Company amounted to 4.04p compared with 4.93p a year ago. This reduced level of earnings is mainly due to the new capital structure put in place last September, following the repayment of the zero dividend preference shares. This fall, however, masks a strong, often double digit, growth in dividends from UK equities in the portfolio, as margins and profits have risen, although we expect going forward this rate of increase to return to the 5-6% long term average.

The Board has today declared an unchanged second interim dividend of 1.9375p per ordinary share to be paid on 31 October 2006.

### Auditors

Deloitte & Touche LLP have been the Company's auditors since 1990 and have served the Company well throughout the period. However, in line with corporate governance recommendations, the Audit Committee recently undertook a review of the Company's auditors. As a result, the Board has decided to appoint RSM Robson Rhodes LLP to be the new independent auditors to the Company.

### Prospects

At the time of writing this statement, the background to markets is very uncertain with the oil price hitting new highs, instability in the Middle East and mixed economic indicators. This is likely to be reflected in greater volatility and markets may well find it difficult to progress much from, or indeed hold, their current levels over the rest of the year, although by most measures the UK equity market is not expensive.

On a positive note, we have a broadly defensive portfolio which should hold us in good stead and our Portfolio Manager has steered us successfully through difficult waters before. I remain confident that he will do so again and will continue to deliver the high level of income required and to achieve growth in capital over the longer term, notwithstanding any squalls we may encounter in the shorter term.

Hugh Twiss  
Chairman  
1 August 2006

## Classification of Investments

as at 30 June 2006

	Market Value 30 June 2006			Market Value 30 June 2006	
	%	£'000		%	£'000
<b>FIXED INTEREST</b>					
Preference Shares	12.6	18,570			
Sterling Fixed Interest	5.8	8,618			
	<b>18.4</b>	<b>27,188</b>			
<b>EQUITIES (incl. convertibles)</b>					
<b>Resources</b>					
Mining	0.2	298			
Oil & Gas	5.1	7,556			
	<b>5.3</b>	<b>7,854</b>			
<b>Basic Industries</b>					
Chemicals	1.0	1,452			
Construction & Building Materials	7.2	10,627			
	<b>8.2</b>	<b>12,079</b>			
<b>General Industrials</b>					
Aerospace & Defence	1.2	1,766			
Electronic & Electrical Equipment	1.0	1,417			
Engineering & Machinery	0.8	1,282			
	<b>3.0</b>	<b>4,465</b>			
<b>Cyclical Consumer Goods</b>					
Automobiles & Parts	<b>0.7</b>	<b>1,092</b>			
<b>Non-Cyclical Consumer Goods</b>					
Beverages	1.2	1,810			
Food Producers & Processors	2.0	2,982			
Packaging	0.6	904			
Pharmaceuticals & Biotech	1.2	1,738			
Tobacco	3.6	5,282			
	<b>8.6</b>	<b>12,716</b>			
<b>Cyclical Services</b>					
General Retailers	1.3	1,926			
Leisure & Hotels	2.3	3,351			
Media & Entertainment	1.3	1,883			
Support Services	3.4	4,964			
Transport	4.8	7,050			
	<b>13.1</b>	<b>19,174</b>			
<b>Non-Cyclical Services</b>					
Telecommunications Services	<b>3.2</b>	<b>4,788</b>			
<b>Utilities</b>					
Electricity	2.7	4,043			
Other	6.2	9,150			
	<b>8.9</b>	<b>13,193</b>			
<b>Financials</b>					
Banks	11.0	16,229			
Insurance	2.4	3,506			
Investment Companies	1.8	2,660			
Life Assurance	6.8	10,112			
Real Estate	3.3	4,905			
Speciality & Other Finance	5.3	7,850			
	<b>30.6</b>	<b>45,262</b>			
<b>TOTAL INVESTMENTS</b>	<b>100.0</b>	<b>147,811</b>			

## 10 Largest Investments

as at 30 June 2006

	Market Value 30 June 2006 £'000		Market Value 30 June 2006 £'000
*HSBC	5,356	BP	3,720
*BT	4,999	Royal Dutch Shell	3,711
*Lloyds TSB	4,888	*Gallaher	3,449
*Aviva	4,245	Old Mutual	3,125
*HBOS	3,748	British American Tobacco	2,860

These investments total £40,101,268 or 27.1% of the portfolio.

\*includes fixed interest

# Income Statement

for the half year ended 30 June 2006

	(Unaudited) Half year ended 30 June 2006		
	Revenue return £'000	Capital return £'000	Total £'000
Gains on investments held at fair value through profit or loss	–	3,791	3,791
Investment income	3,387	–	3,387
Other operating income	21	–	21
<b>Gross revenue and capital gains</b>	<b>3,408</b>	<b>3,791</b>	<b>7,199</b>
Management and performance fees	(152)	(956)	(1,108)
Other administrative expenses	(115)	–	(115)
<b>Net return before finance costs and taxation</b>	<b>3,141</b>	<b>2,835</b>	<b>5,976</b>
Interest payable	(252)	(757)	(1,009)
Movement in provision for redemption of the zero dividend preference shares in subsidiary	–	–	–
<b>Net return on ordinary activities before taxation</b>	<b>2,889</b>	<b>2,078</b>	<b>4,967</b>
Taxation on net return on ordinary activities	(86)	61	(25)
<b>Net return on ordinary activities after taxation attributable to equity shareholders</b>	<b>2,803</b>	<b>2,139</b>	<b>4,942</b>
<b>Transfer to reserves</b>	<b>2,803</b>	<b>2,139</b>	<b>4,942</b>
<b>Return per ordinary share</b> (note 2)	<b>4.04p</b>	<b>3.09p</b>	<b>7.13p</b>

The total columns of this statement represent the Company's income statement, prepared in accordance with UK GAAP. The revenue and capital columns are supplementary to this and are published under guidance from the Association of Investment Trust Companies.

(Unaudited) Half year ended 30 June 2005			(Audited) Year ended 31 December 2005		
Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
–	8,115	8,115	–	19,355	19,355
3,386	–	3,386	6,596	–	6,596
14	–	14	92	–	92
<u>3,400</u>	<u>8,115</u>	<u>11,515</u>	<u>6,688</u>	<u>19,355</u>	<u>26,043</u>
(144)	(931)	(1,075)	(288)	(1,210)	(1,498)
(184)	(190)	(374)	(309)	(173)	(482)
<u>3,072</u>	<u>6,994</u>	<u>10,066</u>	<u>6,091</u>	<u>17,972</u>	<u>24,063</u>
(170)	(511)	(681)	(358)	(1,074)	(1,432)
–	(1,480)	(1,480)	–	(2,253)	(2,253)
<u>2,902</u>	<u>5,003</u>	<u>7,905</u>	<u>5,733</u>	<u>14,645</u>	<u>20,378</u>
(142)	134	(8)	(217)	204	(13)
<u>2,760</u>	<u>5,137</u>	<u>7,897</u>	<u>5,516</u>	<u>14,849</u>	<u>20,365</u>
<u>2,760</u>	<u>5,137</u>	<u>7,897</u>	<u>5,516</u>	<u>14,849</u>	<u>20,365</u>
<u>4.93p</u>	<u>9.16p</u>	<u>14.09p</u>	<u>9.33p</u>	<u>25.12p</u>	<u>34.45p</u>

# Reconciliation of Movements in Shareholders' Funds

for the half year ended 30 June 2006

	<b>(Unaudited) Half year ended 30 June 2006 £'000</b>	(Unaudited and restated)* Half year ended 30 June 2005 £'000	(Audited) Year ended 31 December 2005 £'000
Net revenue on ordinary activities after taxation	<b>2,803</b>	2,760	5,516
Dividends	<b>(2,671)</b>	(2,773)	(5,539)
	<b>132</b>	(13)	(23)
Increase in realised and unrealised profits	<b>2,139</b>	5,137	14,849
	<b>2,271</b>	5,124	14,826
Issue of shares	<b>1,719</b>	–	18,218
Shareholders' funds at start of the period	<b>106,605</b>	73,561	73,561
<b>Shareholders' funds at end of the period</b>	<b>110,595</b>	78,685	106,605

\*Restated in accordance with accounting policy at 31 December 2005.

# Balance Sheet

as at 30 June 2006

	<b>(Unaudited)</b> <b>30 June</b> <b>2006</b> <b>£'000</b>	(Unaudited and restated)* 30 June 2005 £'000	(Audited) 31 December 2005 £'000
<b>Non-current assets</b>			
Investments held at fair value through profit or loss	<b>147,811</b>	141,881	141,845
<b>Current assets</b>			
Debtors	<b>1,080</b>	1,112	1,152
Cash at bank	<b>1,152</b>	156	1,834
	<b>2,232</b>	1,268	2,986
<b>Current liabilities</b>	<b>(39,448)</b>	(64,464)	(38,226)
	<b>(37,216)</b>	(63,196)	(35,240)
<b>Total net assets</b>	<b>110,595</b>	78,685	106,605
<b>Capital and reserves</b>			
Called up share capital	<b>3,484</b>	2,801	3,433
Capital redemption reserve	<b>26,302</b>	26,302	26,302
Other capital reserves:			
Share premium	<b>28,288</b>	9,034	26,620
Realised reserves	<b>16,004</b>	12,845	14,415
Unrealised reserves	<b>32,845</b>	24,152	32,295
Revenue reserve	<b>3,672</b>	3,551	3,540
<b>Equity shareholders' funds</b>	<b>110,595</b>	78,685	106,605
<b>Net asset value per ordinary share</b> (note 3)	<b>158.70p</b>	140.44p	155.26p

\*Restated in accordance with accounting policy at 31 December 2005.

# Cash Flow Statement

for the half year ended 30 June 2006

	(Unaudited) Half year ended 30 June 2006 £'000	(Unaudited) Half year ended 30 June 2005 £'000	(Audited) Year ended 31 December 2005 £'000
Net cash inflow from operating activities	<b>2,100</b>	1,936	4,761
Net cash outflow from servicing of finance	<b>(1,068)</b>	(788)	(1,577)
Net tax recovered	<b>3</b>	10	7
Net cash (outflow)/inflow from financial investment	<b>(2,175)</b>	(3,209)	8,116
Equity dividends paid	<b>(2,671)</b>	(2,773)	(5,540)
Net cash (outflow)/inflow before financing	<b>(3,811)</b>	(4,824)	5,767
Net cash inflow/(outflow) from financing	<b>3,129</b>	3,291	(5,592)
<b>(Decrease)/increase in cash</b>	<b>(682)</b>	(1,533)	175

## Notes to the Cash Flow Statement

### Reconciliation of operating revenue to net cash inflow from operating activities

Net revenue before interest payable and taxation	<b>3,141</b>	3,072	6,091
Decrease/(increase) in accrued income	<b>77</b>	(29)	(84)
(Decrease)/increase in creditors	<b>(119)</b>	37	165
Tax deducted at source	<b>(43)</b>	(23)	(28)
Management, performance and administrative fees charged to capital	<b>(956)</b>	(1,121)	(1,383)
<b>Net cash inflow from operating activities</b>	<b>2,100</b>	1,936	4,761

### Reconciliation of net cash flow to movement in net debt

(Decrease)/increase in cash	<b>(682)</b>	(1,533)	175
Net drawdown of loans	<b>(1,410)</b>	(3,291)	(15,558)
Exchange movements	<b>-</b>	24	(6)
Movement in net funds in the period	<b>(2,092)</b>	(4,800)	(15,389)
Net debt at the beginning of the period	<b>(35,224)</b>	(19,835)	(19,835)
<b>Net debt at the end of the period</b>	<b>(37,316)</b>	(24,635)	(35,224)

### Represented by:

Cash at bank and short term deposits	<b>1,152</b>	156	1,834
Debt falling due within one year	<b>(38,468)</b>	(24,791)	(37,058)
<b>Total</b>	<b>(37,316)</b>	(24,635)	(35,224)

# Notes

## 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 and on the basis of accounting policies which are consistent with the last annual financial statements. The accounts have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice ("UK GAAP") and the AITC Statement of Recommended Practice ("SORP") for investment trusts dated January 2003 and revised in December 2005.

All of the Company's operations are of a continuing nature.

### (b) Expenses

All expenses are accounted for on an accruals basis. The Board's expectation is that over the long term three quarters of the Company's investment returns will be in the form of capital gains. On this basis, the Company 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). All performance fees are charged to capital.

### (c) Income

Dividends receivable on equity shares are recognised as revenue for the year on an ex-dividend basis. Income from fixed interest debt securities is recognised using the effective interest rate method. Bank deposit interest, underwriting commission and stock lending income is accounted for on an accruals basis. Special dividends are allocated as revenue return or capital return, depending on whether they are capital or income in nature.

## 2. Returns per share

The return per ordinary share amounting to 7.13p (30 June 2005: 14.09p; 31 December 2005: 34.45p) is based on the net gain attributable to the ordinary shares of £4,942,000 (30 June 2005: £7,897,000; 31 December 2005: £20,365,000) and on the 69,288,212 weighted average number of ordinary shares in issue during the period (30 June 2005: 56,028,865; 31 December 2005: 59,111,073).

Revenue return per ordinary share amounting to 4.04p (30 June 2005: 4.93p; 31 December 2005: 9.33p) is based on the earnings attributable to the ordinary shares of £2,803,000 (30 June 2005: £2,760,000; 31 December 2005: £5,516,000) and on the 69,288,212 weighted average number of ordinary shares in issue during the period (30 June 2005: 56,028,865; 31 December 2005: 59,111,073).

## Notes

continued

Capital return per ordinary share amounting to 3.09p (30 June 2005: 9.16p; 31 December 2005: 25.12p) is based on the net capital gains for the period of £2,139,000 (30 June 2005: £5,137,000; 31 December 2005: £14,849,000) and on the 69,288,212 weighted average number of ordinary shares in issue during the period (30 June 2005: 56,028,865; 31 December 2005: 59,111,073).

### **3. 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 £110,595,000 (30 June 2005: £78,685,000; 31 December 2005: £106,605,000) and on the 69,687,798 ordinary shares in issue (30 June 2005: 56,028,865; 31 December 2005: 68,662,798).

### **4. Dividends**

Interim dividends are recognised in the period in which they are paid.

In respect of the year ended 31 December 2005, a third interim dividend of 1.9375p per ordinary share (2004: 2.475p) was paid on 31 January 2006 to shareholders on the register at close of business on 6 January 2006. A fourth interim dividend of 1.9375p per ordinary share (2004: 2.475p) was paid on 28 April 2006 to shareholders on the register at close of business on 31 March 2006. These two dividends are reflected in these interim accounts.

In respect of the year ending 31 December 2006, a first interim dividend of 1.9375p per ordinary share (2005: 2.475p) was paid on 28 July 2006 to shareholders on the register on 23 June 2006. The aggregate cost of this dividend was £1,350,000. A second interim dividend of 1.9375p per ordinary share (2005: 2.475p) will be paid on 31 October 2006 to shareholders on the register on 22 September 2006. The shares will go ex-dividend on 20 September 2006.

In accordance with FRS 21, the first and second interim dividends have not been accrued for in the interim accounts as they are paid after the period end.

### **5. Comparative information**

The financial information contained in this interim statement does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. The financial information for the half years ended 30 June 2005 and 30 June 2006 has not been audited. The figures and financial information for the year ended 31 December 2005 are extracted from the latest published accounts and do not constitute the statutory accounts for that year. Those accounts have been delivered to the Registrar of Companies and included the Report of the Independent Auditors, which was unqualified and did not include a statement under either section 237(2) or 237(3) of the Companies Act 1985.

## Directors and other Information

### Directors

H J Twiss (Chairman)  
V P Bazalgette  
A L C Bell  
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 Number

Registered as investment company in England and Wales No. 2422514

### Investment Manager

Henderson Global Investors Limited, 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 D J Trickett ACIS

### Registrar

Computershare Investor Services PLC  
Telephone: 0870 707 1039

### itsHenderson Share Plan and PEP/ISA Holders

Telephone: 0845 712 5432

### Henderson ISA/PEP Holders

Telephone: 0800 832 832

### Results

The half year results are announced at the end of July/beginning of August. The full year results are announced in early March. The Annual General Meeting is held in London in April/May.

### Share Price Information

The market price of the Company's ordinary shares is published daily in The Financial Times and other leading newspapers. The Financial Times also shows figures for the estimated net asset value and the premium/discount applicable to the shares.

### Dividend Payments

First interim payable on 28 July 2006  
Second interim payable on 31 October 2006  
Third interim payable on 31 January 2007  
Fourth interim payable on 30 April 2007

### Internet

Further information on the Company, including the market price and net asset value, can be found on the Company's website:

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

Shareholders who hold their shares 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 the Computershare site you will need the holder reference number stated on the top left corner of your share certificate.



## 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.

### **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 current liabilities being used for investment purposes (irrespective of how long the debt has to run until repayment) divided by shareholders' funds.





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