Henderson High Income Trust plc

(name changed from TR High Income Trust PLC on 21 March 1997)

Contents

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.

Predictable and progressive income stream

Approximately three quarters of the Company's assets are invested in ordinary shares of listed UK companies with the balance in listed fixed interest stocks. The portfolio is selected to provide shareholders with a predictable high income which increases progressively, paid out four times a year. As at the year end, the gross dividend yield was 5.5%*.

Top holdings

Lloyds TSB
Shell Transport & Trading
BAT
NatWest
British Telecommunications

About half of the portfolio is invested in companies included in the FTSE 100 Index and the selection process seeks to identify companies with strong balance sheets and healthy dividend and earnings cover. 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.

Proven performance

Potential for capital growth

Henderson High Income Trust won the 1997 Moneywise Investment Trust Award for the UK High Income category. The net asset value total return of the Company over five years is 97.1%*.

Independent board of directors

The directors, a majority of whom is independent of the management company, meet regularly with representatives of Henderson Investors to consider investment strategy and monitor performance.

Shares easy to buy

Details of how shares can be bought through the Henderson Investors Investment Trust Share Plan and the Selection PEP are given on the back cover of this report.

*Source: AITC Services Limited

Directors

Sir Anthony Beaumont-Dark
(Chairman)
is a consultant to Brewin Dolphin (Birmingham) and Deputy Chairman of J Saville Gordon plc. He joined the Board in 1989 and is Chairman of the Audit Committee and the Management Engagement Committee.

Sir William Stuttaford, CBE
(Deputy Chairman)
is a director of AMVESCAP PLC and of INVESCO Europe Limited. He is also a director of Towry Law plc and of several listed investment trusts. As the former Chairman of Henderson Highland Trust plc, he joined the Board in April 1997 and is a member of both the Audit Committee and the Management Engagement Committee.

J S Curtis
is a director of Henderson Investors Limited and was the Company's Portfolio Manager from 1989 to 1995. He joined the Board in 1994.







P C J Dalby
is a partner of Cazenove & Co. and a former director of Henderson Highland Trust plc. He joined the Board in April 1997 and is a member of the Audit Committee and the Management Engagement Committee.

C Dunkerley
is a Latymer Partner, Coutts Group. He joined the Board in 1989 and is a member of the Audit Committee and the Management Engagement Committee.

W D Eason
is a senior member of the Laing & Cruickshank Investment Management team. He joined the Board in 1989 and is a member of the Audit Committee and the Management Engagement Committee.

The Rt. Hon. Sir John Stanley, MP
is a former Minister of State. He is a non-executive director of Fidelity Japanese Values PLC and a former director of Henderson Highland Trust plc. He joined the Board in April 1997 and is a member of the Audit Committee and the Management Engagement Committee.

Management



Kate Murphy
is the Portfolio Manager.

Alex Crooke
is the Deputy Portfolio Manager.

Rachel Fieldwick, ACIS
acts as Company Secretary and is a director of Henderson Secretarial Services Limited, the Corporate Company Secretary.

Financial Highlights

Per ordinary share	31 December 1997	31 December 1996	% Change
Net asset value	**165.2p**	138.6p*	+19.2
Earnings	**7.33p**	6.81p*	+7.6
Share price	**153.0p**	120.5p	+27.0
Annual dividend	**6.70p**	6.45p	+3.9

*Restated to include the assets and earnings of Henderson Highland Trust plc. See note 1b on page 21.

Performance

Total return	1 Year %	3 Years %	5 Years %
Share price	+31.4	+46.3	+80.6
Net asset value	+23.1	+59.4	+97.1
FTSE All-Share Index	+23.1	+73.4	+105.5
Building Society	+3.9	+12.8	+23.1

Source: AITC Services Limited

5 year review

Year to 31 December	Net assets	Net asset value per ordinary share	Share price per ordinary share	Earnings per ordinary share	Dividends per ordinary share
1993	£33.5m	137.2p	146.0p	6.79p	6.00p
1994	£28.7m	119.7p	120.0p	6.28p	6.10p
1995	£32.7m	131.0p	126.0p	6.54p	6.40p
1996*	£72.9m	138.6p	120.5p	6.81p	6.45p
1997	**£86.9m**	**165.2p**	**153.0p**	**7.33p**	**6.70p**

*Restated to include the assets and earnings of Henderson Highland Trust plc. See note 1b on page 21.

Dividend Information

Gross dividend yield at 31 December	1997	1996
Henderson High Income Trust plc*	**5.5%**	6.7%
FTSE All-Share Index†	**3.2%**	3.7%

A fourth interim dividend of 1.70p per ordinary share for the year ended 31 December 1997 will be paid on 30 April 1998 to shareholders registered on 13 March 1998. The shares will be quoted ex-dividend from 9 March 1998.

Details of dividends paid and declared for the year ended 31 December 1997 are given in note 10 to the Accounts on page 25.

*Source: AITC Services Limited
†Source: Datastream

Chairman's Statement

Review

This has been a year of considerable progress for your Company. The Group net assets have grown to £86.9m at the year end. The substantial increase, compared to last year, results from the successful merger with Henderson Highland Trust plc and from the pleasing performance of the portfolio of investments.

I am delighted that the merger has brought benefits to shareholders in such a short time. The Company's shares are more highly rated in the market than they were and they are included in the FTSE All-Share Index in 1998. Already administrative expenses are reduced on a per share basis and we expect a further reduction in the future. Once again the Company comfortably met its income objective enabling it to increase the quarterly dividend rate in the year.

Sir Anthony Beaumont-Dark

Asset performance

Investment returns in our markets have been good this year. Both UK equities and gilts handsomely outstripped returns available from a building society. The net asset value per share rose from 139.7p, as reported in last year's accounts, to 165.2p which is an increase of 18.3%. This year the accounts are reported on a merger accounting basis, as if the Company and Highland were combined at the 31 December 1996. The net asset value per share at 31 December 1996 was 138.6p on this basis, producing an increase of 19.2% over the year.

Turning to the total return, the net asset value per share, assuming net dividends were reinvested rose by 23.1% in the year to the 31 December 1997. This is a very satisfactory outcome and matches the performance of the UK investor's main benchmark, the FTSE All-Share Index. The Company had a substantially higher gross dividend yield at 5.5% than that of the Index at 3.2%, as at the year end.

Share price

I am pleased to report that the share price of the Company rose by 27.0% from 120.5p to 153.0p during the year. The discount of the shares to the asset value closed in the second half of the year. The Board is keen to act in any way it can to ensure that the share price more fully reflects the underlying value of the assets. Therefore, we are seeking shareholders' authority at the AGM to allow us to make market purchases of up to 3% of the Company's shares for cancellation, using the revenue reserve. This power would be used only if the discount widened and the purchase of shares led to an enhancement of shareholder value. We continue to work with Henderson Investors to promote the Company to interested investors.

Earnings and dividends
Earnings per share rose by 7.6% in the year. The gross revenue, primarily income received from our portfolio of investments, exceeded our expectations for yet another year. It was enhanced by the payment of special dividends, but underlying dividend growth was also ahead of forecasts. Administrative expenses declined as a percentage of gross revenue even in the first year of the merger, but the full benefit in reduced costs borne on a per share basis will be seen in future years.

This year's healthy revenue, supported by comfortable revenue reserves, lay behind the Board's decision to increase the third interim dividend payment, accelerating the dividend growth rate for the year. A fourth quarterly payment at the same rate of 1.70p net per share has been declared, taking this year's total to 6.7p net per share. This increase of 3.9% is greater than the rate of inflation.

The dividend payment has increased by more than the forecast at the time of the merger. Your Board is keen to see that it continues to grow prudently over time.

The Board of Directors
I would like to extend my thanks to Roddy Maclean for his contribution to the Company's activities since its flotation. He retired from the Board after the completion of the merger with Henderson Highland Trust plc, making way for representatives of the Highland Board, Sir William Stuttaford, CBE, Patrick Dalby and The Rt Hon Sir John Stanley. We miss Roddy's valuable involvement, but it is generously compensated for by the new members of the team.

Corporate Governance
We continue to monitor the governance of companies in our portfolio and have responded to the cases where executive remuneration seemed excessive in relation to the company's performance. Monitoring this issue over a number of years we have noticed an improving trend, but we will continue to vote actively where we feel it is merited.

Prospects
I am confident that the Company enters the year well placed to weather any challenges the stock market may offer. The successful merger with Henderson Highland Trust plc creates an efficient, low cost investment trust with comfortable revenue reserves and a clear strategic focus. The improvement in the share price of the Company verifies the Board's belief at the time of the merger that there is appetite among investors for a conservative investment trust which produces a high running yield relative to other investments whilst showing capital and income growth.

It is difficult to predict with any confidence that investment returns in 1998 will match those of the past few years. Most economists now agree that growth in the UK will slow in 1998, but opinion differs on how sharp the decline will be and whether it will be enough to keep inflation under control so that interest rates can fall.

Under these conditions both equities and gilts would normally struggle to appreciate. However there is a shortage of stock in the UK market, the impact of which should not be underestimated. Global merger mania is likely to continue and with it the trend to buy back shares. The number of shares bought back by companies looks set to exceed new equity issues in 1998. This should support the market, so it may be unwise to be too pessimistic.

As you will read in the Investment Review, we enter the year with the portfolio fully but cautiously invested.

Anthony Beaumont-Dark

Sir Anthony Beaumont-Dark
Chairman
5 March 1998

Investment Review

Kate Murphy

Investment Policy and Process

The shares held in the portfolio are chosen for the combination of their income and growth prospects. The Investment Manager is charged to deliver, when possible, a total return in line with that of the FTSE All-Share Index and above all to deliver long term growth ahead of that achieved in a Building Society without taking undue risk.

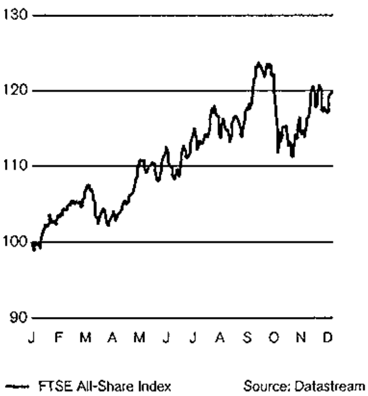
The portfolio is structured around the main UK benchmark index, the FTSE All-Share Index, which represents the industrial mix of the UK economy. In recognition of the income bias, the FTSE 350 Higher Yield Index is also used as a comparator.

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 long term value currently not reflected in the share price. The very best opportunities are found when a company is totally 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 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: 1997 Price Performance

UK Equities: 1997 Share Price Performance



Review of the year to 31 December 1997

Both UK equity and fixed interest investments delivered good returns. Nevertheless they were middle ranking in the global context. The total return of the FTSE All-Share Index with net income reinvested was 23.1% in the year. The Government All Stocks Index returned 12.3% in 1997, giving its highest annual return since 1993. Gilts performed well because inflation remained under control and government finances were strong, but the principal driver was convergence towards German bunds as it became apparent that European Monetary Union was a reality. The performance of gilts underpinned that of equities.

On reflection perhaps the most surprising fact of the year was that both equities and gilts responded so well to a change in the government of the country. One reason was the Chancellor's astute transfer of responsibility for monetary policy to the Bank of England. This move gave the markets confidence that policy would be independent of political influence.

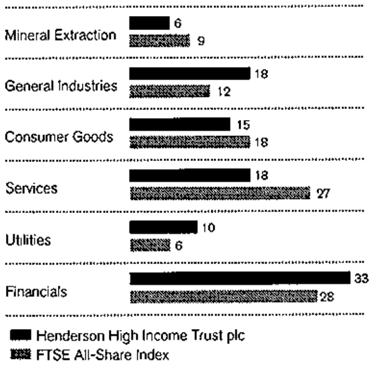
Turning to equities, the best performance was found among the big companies. Around the world, investors wanted to own the big global players in each market. Undoubtedly the interest of foreign investors in the UK stock market polarised the focus on larger companies with a predictable earnings outlook. The clear winners were the financials and the pharmaceutical sectors.

The strength of sterling had a significant influence on performance this year. Even before the collapse of the Far Eastern currencies, sterling was strong against the major European currencies. Industrial companies exporting goods from the UK suffered as they struggled to compete and many announced profit warnings. This was not a year in which any question-mark over a company's prospects was tolerated.

Investment Review
continued

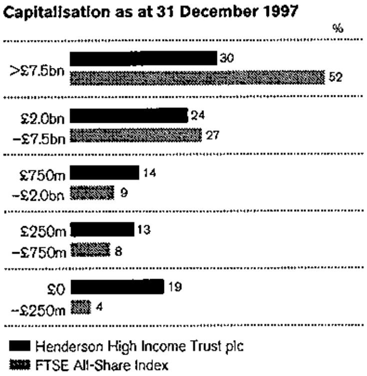
The sheer weight of money available for investment in the market helped to drive valuations higher. Institutional and private investors received windfalls from the demutualisation of the building societies as well as from quoted companies wishing to provide better returns for shareholders by addressing their corporate structure. Many of the latter handed back surplus capital to shareholders by paying special dividends or buying back shares. In addition there was a noticeable increase in corporate take over activity later in the year, as is often the case at the end of the economic cycle.

Sector Analysis of the Equity Portfolio as at 31 December 1997



Source: Datastream

Proportion of Equity Portfolio by Market Capitalisation as at 31 December 1997



Source: Datastream

Portfolio Activity

The most significant event of the year was the merger of the Company with Henderson Highland Trust, completed in April. The two portfolios were very similar in structure and theme and the only notable impact of the merger was to increase the proportion of the assets invested in equities compared to last year, with a corresponding reduction in fixed interest exposure. The equity portfolio remained heavy in financials, where consolidation and cost cutting are bringing benefits, and in utilities. Both sectors continued to perform well against a background of falling bond yields.

We did not make a significant switch to medium or smaller sized companies during the year leaving over half the portfolio invested in companies capitalised at more than £2bn. Among the larger companies, we increased investment in the oil sector with a new holding in **BP** early in the year. We also built up a position in **Diageo,** formed by the merger between **Grand Metropolitan** and **Guinness**, now one of the largest global consumer companies in the world.

Several of the largest holdings were reduced in size. **HSBC** was reduced after its exceptional performance, using an option strategy.

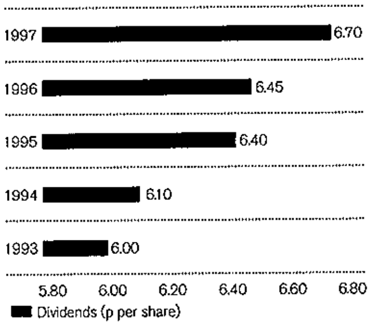
We generally resisted increasing the portfolio's exposure to industrial companies, even though valuations are becoming compelling. However domestic construction related companies, such as the housebuilders and UK quarrying companies, proved too tempting because their particular prospects are improving. **Persimmon** and **Aggregate Industries** were bought at low prices compared to their asset value so you will see increased exposure to the building sectors.

Our fixed interest investments have had a predominantly financial focus for some time. During the year the aim to spread investment across a greater range of industrial sectors was achieved. New investments include bonds issued by **Kingfisher** and **Stagecoach** for example.

We benefited from take over activity in the year and it continues into 1998. Cash offers for **MAM** and **Triplex Lloyd** enhanced performance in 1997. In the current year we are seeing the benefit of the merger of **Commercial Union** and **General Accident** and competing bids for the **Energy Group**.

Investment Review
continued

Henderson High Income Trust plc
Dividends increasing over 5 years



Alex Crooke

Income

The revenue received from the portfolio was very healthy this year. The underlying dividend growth of the investments outstripped our expectations. In addition, we received some one-off payments, resulting from the restructuring of companies' affairs described above. **British Telecommunications** paid a substantial payment in August and the other large contributions came from **London Merchant Securities** and **Boots**.

We expect more special dividend payments but we do not include any in our forecasts. In addition, we take the view that the rate of dividend growth across the market will slow in 1998 in line with earnings growth. On the basis of these conservative forecasts, the revenue projected for the Company is healthy and it is backed by the revenue reserves.

Prospects

We enter the year with the portfolio invested cautiously with no gearing. In general, equity valuations, particularly those of the favoured larger companies, are high but corporate activity is developing to justify them. The most compelling argument for remaining in the market is the shortage of available stock. There are simply not enough new equity issues to replace the share buybacks that are taking place.

Industrial companies face a huge challenge in export markets against more competitive European and Far Eastern companies. For a long time the manufacturing sector seemed to withstand the strength of sterling, but it is now suffering and share prices reflect the uncertainty looking ahead. At some point in 1998 it will be right to move from some of the highly rated large companies to cheaper smaller ones in cyclical industries.

The UK economy is in a healthy state, even if growth is slowing this year. However, as a result of falling exports the UK trade balance is worsening and the impact of the Asian crisis is only just beginning to take effect. While interest rates are unlikely to rise much further with these uncertainties pending, unemployment in the country is at a historic low and consumer demand remains strong. There is therefore a possibility that inflation could rise, but on balance the risk is unlikely to destabilise the fixed interest market, the valuation of which supports equities.

Kate Murphy

Alex Crooke

5 March 1998

Classification of Investments

at 31 December 1997

LISTED IN GREAT BRITAIN:

	1997 %	1996 %
FIXED INTEREST		
Preference Shares	**6.6**	7.4
Others	**7.9**	10.1
	14.5	17.5
CONVERTIBLES	**9.3**	9.2
EQUITIES		
Mineral Extraction		
Extractive Industries	**0.2**	0.3
Oil, Integrated	**4.6**	3.2
Oil Exploration & Production	**0.1**	–
	4.9	3.5
General Industrials		
Building & Construction	**1.8**	–
Building Materials & Merchants	**1.8**	1.0
Chemicals	**0.9**	1.4
Diversified Industrials	**2.7**	4.5
Electronic & Electrical Equipment	**1.3**	2.1
Engineering	**3.3**	1.4
Engineering, Vehicles	**0.9**	1.2
Paper, Packaging & Printing	**0.7**	0.7
	13.4	12.3
Consumer Goods		
Alcoholic Beverages	**2.5**	0.8
Food Producers	**2.8**	4.0
Household Goods & Textiles	**0.4**	1.0
Pharmaceuticals	**2.0**	1.8
Tobacco	**4.1**	3.7
	11.8	11.3
Services		
Leisure & Hotels	**0.4**	1.4
Media	**–**	0.8
Retailers, Food	**2.3**	2.5
Retailers, General	**2.4**	1.5
Breweries, Pubs & Restaurants	**2.6**	1.3
Support Services	**1.2**	0.4
Telecommunications	**2.4**	3.3
Transport	**2.1**	2.1
	13.4	13.3

	1997 %	1996 %
Utilities		
Electricity	**3.6**	4.6
Gas Distribution	**0.8**	0.6
Water	**3.3**	5.1
	7.7	10.3
Financials		
Banks, Retail	**11.1**	10.4
Insurance	**5.9**	3.7
Life Assurance	**3.0**	3.7
Other Financial	**3.0**	2.3
Property	**2.0**	2.1
Investment Trusts	**–**	0.4
	25.0	22.6
TOTALS	**100.0**	**100.0**

Investments: Fixed Interest and Convertibles

Valuations at 31 December 1997

STERLING FIXED INTEREST	£'000
Preference Shares	
Abbey National 10⅜%	560
Bank of Scotland 9¾%	1,286
Brent Intl 9%	225
H P Bulmer 8¾%	311
Commercial Union 8¾%	1,130
Co-operative Bank 9¼%	694
General Accident 8⅞%	430
Hyder 7⅞%	239
Royal & SunAlliance 7⅜%	427
Standard Chartered 7⅜%	409
Total Preference Shares	**5,711**
Others	
Daily Mail 10% 2021	933
Eastern Group 8¾% 2012	844
Imperial Chemicals 9¾% 2005	637
Kingfisher 8⅛%	889
Lloyds Bank 8% 2023	806
P & O 11½% 2014	826
Scottish Amicable 8½% 2049	340
SPI Finance 8¾% 2049	808
Stagecoach 7⅝% 2007	737
Total Others	**6,820**
TOTAL FIXED INTEREST	**12,531**

CONVERTIBLES	£'000
Amec 6½p Conv Cum Red Pref	396
BAA 5¾% Conv Bonds	245
BAA 5¾% Conv Bonds (Regd)	297
BICC 10.75p Conv Cum Red Pref	577
Blue Circle 7⅝% Conv Cum Red Pref	353
British Aerospace 7.75p Conv Cum Red Pref	703
British Airways 9¾% Conv Bonds	396
Caradon 7.25p Conv Cum Red Pref	306
Carlton Comm 6.5p Conv Cum Red Pref	399
Compass Group 5¾% Conv Bonds	325
Dixons Group 5p Conv Pref	601
Premier Farnell 89.2p Conv Cum Red Pref	346
Rank Group 8¼p Conv Cum Red Pref	347
Reckitt & Colman 9½% Conv Bonds	919
Rexam 7¾% Conv Cum Pref	250
Slough Estates 8¼% Conv Cum Red Pref	1,224
Wagon Inds 7.25p Conv Pref	154
Williams Holdings 8p Conv Cum Red Pref	168
TOTAL CONVERTIBLES	**8,006**

Investments: Equities

Valuations at 31 December 1997

MINERAL EXTRACTION	£'000
Extractive Industries	
RJB Mining	197
Oil, Integrated	
British Petroleum	800
Shell Transport & Trading	3,115
Oil Exploration & Production	
LASMO OPS	81
Total Mineral Extraction	**4,193**

GENERAL INDUSTRIALS	
Building & Construction	
Persimmon	660
Tilbury Douglas	853
Building Materials & Merchants	
Aggregate Industries	729
Hanson	330
Hepworth	505
Chemicals	
Albright & Wilson	344
BTP	392

GENERAL INDUSTRIALS continued	£'000
Diversified Industrials	
Adwest Group	535
Powell Duffryn	950
Tomkins	858
Electronic & Electrical Equipment	
General Electric	710
Volex Group	406
Engineering	
British Steel	470
BTR	725
Carclo Engineering	479
McKechnie	414
Triplex Lloyd	790
Engineering, Vehicles	
T & N	746
Paper, Packaging & Printing	
De La Rue	515
Ferguson International	111
Total General Industrials	**11,522**

Investments: Equities
continued

CONSUMER GOODS	£'000
Alcoholic Beverages	
Allied Domecq	669
Diageo	1,455
Food Producers	
Booker	714
Fisher	216
Hillsdown	527
Unigate	992
Household Goods & Textiles	
William Baird	359
Pharmaceuticals	
Glaxo Wellcome	1,728
Tobacco	
B.A.T Industries	2,372
Gallaher Group	484
Imperial Tobacco	633
Total Consumer Goods	**10,149**

SERVICES	
Leisure & Hotels	
Rank Group	373
Retailers, Food	
Safeway	1,151
Watson & Philip	829
Retailers, General	
Boots	1,109
Save Group	253
W H Smith	722
Breweries, Pubs & Restaurants	
Bass	1,417
Greenalls Group	439
Vaux	353
Support Services	
Davis Service Group	387
Williams	642
Telecommunications	
British Telecommunications	2,105
Transport	
Ocean Group	591
Railtrack	967
Transport Development	226
Total Services	**11,564**

UTILITIES	£'000
Electricity	
Energy Group	437
National Grid	942
National Power	660
Scottish Hydro-Electric	614
Southern Electric	478
Gas Distribution	
BG	725
Water	
Anglian Water	415
Severn Trent	948
South West Water	974
United Utilities	496
Total Utilities	**6,689**

FINANCIALS	
Banks, Retail	
Bank of Ireland	560
Barclays	971
HSBC Holdings	1,457
Lloyds TSB	3,155
National Westminster	2,222
Royal Bank of Scotland	1,160
Insurance	
Aberdeen Lloyds	138
Bradstock Group	124
Commercial Union	1,916
General Accident	791
Lambert Fenchurch	358
LIMIT	566
Royal & SunAlliance	1,032
Syndicate Capital	165
Life Assurance	
Britannic Assurance	441
Norwich Union	497
Prudential	367
United Assurance Group	1,273
Other Financial	
ED & F Man	559
Gerrard Group	251
Mercury Asset Management	527
Provident Financial	1,275
Property	
Great Portland Estates	793
Land Securities	485
London Merchant Securities	432
Total Financials	**21,515**
TOTAL EQUITIES	**65,632**

Directors' Report

The directors present the Group audited accounts and their report for the year ended 31 December 1997.

Activities and Business Review

A review of the business is given in the Chairman's Statement on pages 4 and 5 and in the Investment Review on pages 6 to 8.

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. Inland Revenue approval of the Company's status as an investment trust has been received in respect of the year ended 31 December 1996 and the Company has subsequently directed its affairs so as to enable it to continue to obtain such approval.

The Company intends to continue as a fully qualifying investment trust company under the Personal Equity Plan Regulations.

Assets

Total Group net assets at 31 December 1997 amounted to £86,905,000 compared with £72,914,000 at 31 December 1996, assuming the Company had merged with Henderson Highland Trust plc at that date (see note 1b on page 21).

Revenue and Dividend

Group net revenue after taxation for the year was £3,857,000. Earnings per ordinary share amounted to 7.33p. Two quarterly dividends of 1.65p each and one quarterly dividend of 1.70p have been paid and a fourth interim dividend of 1.70p will be paid on 30 April 1998 making a total of 6.70p for the year. Former Henderson Highland Trust shareholders were not entitled to receive the first interim dividend paid on 31 July 1997.

Directors

Sir Anthony Beaumont-Dark, Mr J S Curtis, Mr C Dunkerley and Mr W D Eason all held office throughout the year. Sir William Stuttaford, CBE, was appointed Deputy Chairman, and Mr P C J Dalby and The Rt Hon Sir John Stanley, MP were appointed as directors on 24 April 1997. Mr L R Maclean resigned as a director on 24 April 1997.

The director retiring by rotation is Sir Anthony Beaumont-Dark who, being eligible, offers himself for re-appointment. In accordance with the Articles of Association, Sir William Stuttaford, Mr P C J Dalby and Sir John Stanley will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-appointment.

Mr J S Curtis is an employee of the management company. Mr P C J Dalby is a partner of Cazenove & Co., which is one of the brokers through whom 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 ordinary share capital of the Company are as shown in the table below:

Ordinary shares	**31.12.97**	01.01.97
With beneficial interest:		
Sir Anthony Beaumont-Dark	**36,500**	21,500
Sir William Stuttaford*	**18,906**	–
J S Curtis	**12,000**	12,000
P C J Dalby*	**4,537**	–
C Dunkerley	**6,181**	6,181
W D Eason	**9,600**	9,600
Sir John Stanley*	**945**	–

*date of appointment 24 April 1997

There have been no changes in the directors' interests since the end of the financial year and the date of this report.

Substantial Share Interests

As at 5 March 1998 the following notifiable interests in the Company's issued ordinary share capital had been declared to the Company:

Henderson Investors Limited (discretionary managed clients)	
Witan Investment Company plc	5.8%
Others	6.4%
	12.2%

Directors' Report
continued

Change Of Company Name

At the Annual General Meeting held on 21 March 1997 a special resolution to change the name of the Company to Henderson High Income Trust plc was proposed and approved. The change of name was effective on 21 March 1997. Share certificates in the former name of TR High Income Trust PLC continue to be valid.

Merger with Henderson Highland Trust plc

At an Extraordinary General Meeting held on 21 March 1997 an ordinary resolution was proposed and approved that a merger between the Company and Henderson Highland Trust plc ("Highland") be effected by means of a Scheme of Arrangement under Section 425 of the Companies Act 1985. On 21 April 1997 the High Court of Justice sanctioned the Scheme and the merger became effective on 23 April 1997. The Company issued 24,821,894 new ordinary shares of 25p to the former Highland shareholders based on the relative Formula Asset Values of the two companies at the close of business on 16 April 1997.

Authorised Share Capital

At an Extraordinary General Meeting held on 21 March 1997 the authorised share capital of the Company was increased from £8,750,000 to £20,000,000 divided into 80,000,000 ordinary shares.

Management Company

Investment management, accounting, secretarial, administrative and UK custody services are provided to the Company by subsidiaries of Henderson plc ("Henderson").

The management agreement between the Company and Henderson provides for the payment of a composite annual management fee of 0.6% paid quarterly in advance based on 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. 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 assets at the 31 December preceding such fund-raising for the purpose of calculating the following year's management fee. Investments in any funds managed by Henderson are wholly excluded from charge.

On 9 May 1997 the notice period for termination of the management contract was reduced from two years to one year.

Offer for Management Company

On 3 February 1998, an offer was announced by AMP, an Australian financial services company, for the shares of the ultimate owner of the trust's management company, Henderson plc.

The directors of Henderson plc have recommended the offer for acceptance by its shareholders.

Duration of the Company

In accordance with the Company's Articles of Association, an ordinary resolution was proposed and passed at the Annual General Meeting on 21 March 1997 to continue the life of the Company. A similar resolution will be proposed in 2002 and thereafter at five-year intervals. If the resolution is not approved, proposals for the Company's liquidation or reconstruction will be put to shareholders within three months.

Issues of New Shares

The directors consider that the authority granted at the Extraordinary General Meeting held on 21 March 1997 to issue new shares for cash should be renewed.

If new ordinary shares are to be allotted for cash, Section 89(1) of the Companies Act 1985 requires such new shares to be offered first to existing shareholders in proportion to their existing holdings of ordinary shares. This entitlement is known as a "pre-emption right".

In certain circumstances it is beneficial for the directors to allot shares for cash otherwise than pro rata to existing shareholders and the Companies Act 1985 provides for shareholders to give such power to the directors by waiving their pre-emption rights. Therefore, a special resolution will be proposed at the Annual General Meeting which, if passed, will give the directors power to allot ordinary shares for cash on a non pre-emptive basis up to an aggregate nominal amount of £657,548 (equivalent to 2,630,192 ordinary shares of 25p or 5% of the Company's existing issued ordinary share capital), as if Section 89(1) of the Companies Act 1985 did not apply. This authority will lapse unless renewed at the Company's Annual General Meeting in 1999.

Directors' Report
continued

Authority to make market purchases of the Company's own shares

At the Annual General Meeting, a special resolution will be proposed to give the directors authority to make market purchases of the Company's own issued ordinary shares up to a maximum of 3% (1,578,115 shares) for cancellation. The directors will only exercise this authority if in their view this might lead to an acceptable enhancement of shareholder value, and so far as is compatible with maintaining a prudent level of revenue reserves, of the Company. As at 31 December 1997 these reserves stood at £973,000.

The maximum purchase price which may be paid for an ordinary share will not be more than 5% above the average middle market share price for the shares as taken from the London Stock Exchange Daily Official List for the five business days preceding the date of purchase and the minimum price will be 25p, being the nominal value per ordinary share. Ordinary shareholders should note that, because any shares purchased by the Company will be cancelled, the number of ordinary shares in issue will be reduced accordingly.

Auditors

The auditors, Deloitte & Touche, have expressed their willingness to continue in office. A resolution to re-appoint them and to authorise the directors to determine their remuneration will be proposed at the Annual General Meeting.

Creditors' Payment Policy

It is the Company's payment policy for the forthcoming financial year to 31 December 1998 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 1997.

By order of the Board

R E Fieldwick Rachel Fieldwick

Henderson Secretarial Services Limited,

Secretary

5 March 1998

Analysis of Ordinary Shareholders

at 31 December 1997

	Number of Holders	%	Number of Shares Held	%
*Individual Holders	3,178	68.5	13,512,380	25.7
**Institutional Holders	1,460	31.5	39,091,485	74.3
	4,638	100.0	52,603,865	100.0

*Individual Holders include 1,039 participants in the Henderson Investors Investment Trust Share Plan.

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

Nominee Code

- Henderson High Income Trust plc undertakes to provide copies of shareholder communications to nominee operators, who have indicated in advance a wish to receive them, for the purpose of distribution to their customers.
- Nominee operators are encouraged to advise investors that they are able to attend meetings, and to speak at meetings when invited by the Chairman.
- Any benefits and incentives to registered shareholders will, so far as is practicable, be offered to nominee shareholders.

Investors in the Henderson Investors Investment Trust Share Plan, the Henderson Investors Selection PEP and, the Henderson Investors Investment Trust PEP receive all shareholder communications. A letter of direction is provided to facilitate voting.

Statement of Directors' Responsibilities in respect of the Accounts

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the net revenue of the Company and of the Group for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis, unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and of the Group and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the Auditors

to the members of Henderson High Income Trust plc

We have audited the accounts on pages 18 to 29, which have been prepared under the historical cost convention, as modified by the revaluation of investments, and the accounting policies set out on page 21.

Respective responsibilities of directors and auditors
As described above, the Company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

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

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

Opinion
In our opinion the accounts give a true and fair view of the state of the Company and of the Group's affairs as at 31 December 1997 and of the total return and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants and Registered Auditors
Stonecutter Court
1 Stonecutter Street
London EC4A 4TR
5 March 1998

Corporate Governance

The directors consider that during the year the Company has complied fully with The Code of Best Practice ("the Code") issued by the Cadbury Committee on the Financial Aspects of Corporate Governance.

The Board and Committees

The Board comprises wholly non-executive directors and meets regularly throughout the year. A majority of the directors is independent of the Company's investment manager. The Board has established audit and management engagement committees with specific terms of reference and details of the membership of these committees are set out on page 2. Matters specifically reserved for decision by the full Board have been defined and a procedure adopted for directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company.

Internal Financial Controls

The directors are responsible for the internal financial control systems of the Group and for reviewing their effectiveness. These aim to ensure the maintenance of proper accounting records, the reliability of the financial information upon which business decisions are made and which is used for publication and that the assets of the Group are safeguarded. The internal financial controls operated by the Board include the authorisation of the investment strategy and regular reviews of the financial results and investment performance. The Board has contractually delegated to external agencies, including the investment manager, the management of the investment portfolio, the custodial services (which include the safeguarding of the assets) the registration services and the day to day accounting and company secretarial requirements. Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of services offered, including the financial control systems in operation, in so far as they relate to the affairs of the Group. The investment manager has established an internal control framework to provide reasonable assurance on the effectiveness of financial internal controls operated on behalf of its clients. The effectiveness of the internal financial controls is assessed by the investment manager's compliance and internal audit departments on an ongoing basis.

The Company's audit committee meets with representatives of the investment manager and receives reports upon the quality and effectiveness of the accounting records and management information maintained on behalf of the Group. It reviews the half year and annual accounts and reviews the nature and scope of the statutory audit and the findings therefrom.

These systems of internal financial control are designed to provide reasonable, but not absolute, assurance against material misstatement or loss. By the procedures set out above the directors have kept under review the effectiveness of the internal financial controls throughout the period.

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 Group consist mainly of securities which are readily realisable and, accordingly, the Group has adequate financial resources to continue in operational existence for the foreseeable future.

Reporting

The auditors, Deloitte & Touche, have confirmed that, in their opinion, with respect to the directors' statements on internal financial control and going concern above, the directors have provided the disclosures required by the Listing Rules of the London Stock Exchange and such statements are not inconsistent with information of which they are aware from their audit work on the accounts; and that the directors' other statements above appropriately reflect the Company's compliance with the other aspects of the Cadbury Code specified for their review by Listing Rule 12.43(j). They were not required to perform the additional work necessary to, and did not, express any opinion on the effectiveness of either the Group's system of internal financial control or its corporate governance procedures nor on the ability of the Group to continue in operational existence.

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

for the year ended 31 December 1997

Notes		Year ended 31 December 1997 Revenue £'000	Capital £'000	Total £'000	Year ended 31 December 1996 Revenue £'000	Capital £'000	Total £'000
17	Total capital gains from investments	**–**	**13,962**	**13,962**	–	4,365	4,365
3	Income from fixed asset investments	**5,111**	**–**	**5,111**	4,917	–	4,917
4	Other interest receivable and similar income	**185**	**–**	**185**	114	–	114
	Gross revenue and capital gains	**5,296**	**13,962**	**19,258**	5,031	4,365	9,396
5	Management fee	**(354)**	**(177)**	**(531)**	(343)	(171)	(514)
6&7	Other administrative expenses	**(171)**	**–**	**(171)**	(181)	–	(181)
	Net return on ordinary activities before interest payable and taxation	**4,771**	**13,785**	**18,556**	4,507	4,194	8,701
8	Interest payable	**(1)**	**(1)**	**(2)**	(13)	(13)	(26)
	Net return on ordinary activities before taxation	**4,770**	**13,784**	**18,554**	4,494	4,181	8,675
9	Taxation on net return on ordinary activities	**(913)**	**54**	**(859)**	(1,020)	59	(961)
	Net return on ordinary activities after taxation	**3,857**	**13,838**	**17,695**	3,474	4,240	7,714
10	**Dividends**	**(3,704)**	**–**	**(3,704)**	(3,381)	–	(3,381)
	Transfer to reserves	**153**	**13,838**	**13,991**	93	4,240	4,333
11	**Return per ordinary share**	**7.33p**	**26.31p**	**33.64p**	6.81p	8.32p	15.13p

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

*The Group accounts have been prepared on the basis of merger accounting (see note 2a).

 The notes on pages 21 to 29 form part of these accounts

Balance Sheets

at 31 December 1997

Notes		Group* 1997 £'000	Group* 1996 £'000	Company 1997 £'000	Company 1996 £'000
12	**Fixed asset investments**				
	Listed at market value in Great Britain	**86,169**	72,134	**86,169**	38,183
	Listed at market value overseas	**–**	1,599	**–**	–
	Subsidiary undertakings	**–**	–	**6,205**	–
		86,169	73,733	**92,374**	38,183
	Current assets				
13	Debtors	**1,071**	1,029	**1,020**	611
	Bank balances and short term deposits	**1,930**	1,899	**1,917**	1,047
		3,001	2,928	**2,937**	1,658
14	**Creditors:** amounts falling due within one year	**(2,265)**	(3,734)	**(37,710)**	(1,038)
	Net current assets/(liabilities)	**736**	(806)	**(34,773)**	620
	Total assets less current liabilities	**86,905**	72,927	**57,601**	38,803
15	**Provision for liabilities and charges**	**–**	(13)	**–**	(1)
	Total net assets	**86,905**	72,914	**57,601**	38,802
	Capital and reserves				
16	Share capital	**13,151**	13,151	**13,151**	6,946
17	Non-distributable reserves				
	Share premium	**20,716**	20,716	**20,716**	20,853
	Merger reserve	**17,784**	17,784	**–**	–
	Realised reserve	**16,305**	11,524	**9,027**	5,695
	Unrealised appreciation	**17,670**	8,613	**13,734**	4,954
17	Revenue reserve	**1,279**	1,126	**973**	354
19	**Equity shareholders' funds**	**86,905**	72,914	**57,601**	38,802
20	**Net asset value per ordinary share**	**165.2p**	138.6p		

*The Group accounts have been prepared on the basis of merger accounting (see note 2a).

Sir Anthony Beaumont-Dark Anthony Beaumont-Dark
Directors
Job Curtis

Job Curtis

The accounts were approved by the directors on 5 March 1998

The notes on pages 21 to 29 form part of these accounts

Group Cash Flow Statement

for the year ended 31 December 1997

Notes		1997 £'000	1997 £'000	1996 £'000	1996 £'000
21	**Net cash inflow from operating activities**		**3,429**		3,429
	Servicing of finance				
	Bank overdraft interest paid		**(2)**		(26)
	Taxation				
	Taxation (paid)/recovered		**(64)**		163
	Financial investment				
	Purchase of investments	**(26,543)**		(22,705)	
	Sale of investments	**28,506**		19,586	
	Cancellation of warrants	**(1,494)**		–	
	Merger costs	**(439)**		–	
	Net cash inflow/(outflow) from financial investment		**30**		(3,119)
	Equity dividends paid		**(3,362)**		(3,229)
	Net cash inflow/(outflow) before financing		**31**		(2,782)
	Financing				
	Proceeds from conversion of subscription shares	–		3,706	
	Proceeds from exercise of warrant rights	–		149	
	Net cash inflow from financing		–		3,855
22	**Increase in cash**		**31**		1,073
	Reconciliation of net cash flow to movement in net funds				
	Increase in cash as above		**31**		1,073
	Net funds at 1 January		**1,899**		826
22	**Net funds at 31 December**		**1,930**		1,899

The notes on pages 21 to 29 form part of these accounts

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). All of the Group's operations are of a continuing nature.

b Group accounts

The Group accounts consolidate the accounts, on a merger accounting basis, of the Company and its wholly owned subsidiary companies Henderson Highland Trust plc ("Highland") and Sceneuser Limited. Group accounts have also been prepared for the comparative period, showing the results of the two companies on a combined basis, even though the merger actually took place on 23 April 1997 (see note 2a).

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 Investment in subsidiary undertakings

The Company's investment in Highland is carried in the Company's accounts at the total nominal value of shares issued on its merger with Highland.

e Capital gains and losses

Realised and unrealised capital gains and losses are dealt with in the non-distributable reserves.

f 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.

g Expenses

All expenses are accounted for on an accruals basis. On the basis of the Board's expected long-term split of returns in the form of capital gains and income of 50% each, the Group charges 50% of its finance costs and management fee (to the extent that it relates to the maintenance or enhancement of the valuation of investments) to capital. Merger costs incurred under the Scheme of Arrangement to effect the merger with Highland, are charged to the share premium account. Consideration payable under the Scheme for cancellation of the warrants in Highland is first charged to the warrant reserve to the full balance of that reserve and the remainder to non-distributable reserves.

h Deferred taxation

Deferred taxation is provided for at the anticipated tax rate on differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the accounts. A deferred tax asset or provision is established to the extent that it is probable that an asset or liability will crystallise in the future.

2 Merger with Henderson Highland Trust plc

a On 23 April 1997 the Company merged with Highland. The Group accounts consolidate the results using the merger accounting basis. It is a requirement of merger accounting that the Group accounts reflect the results of the Company and Highland, assuming the two companies had been merged throughout the current and comparative years. Consequently, the Group Statements of Total Return for the years ended 31 December 1997 and 31 December 1996 reflect the capital and revenue returns of the two companies on a combined basis and the Group balance sheets at 31 December 1997 and 31 December 1996 include the assets and liabilities of the two companies on a combined basis, even though the effective date of the merger was 23 April 1997. For the purposes of the Group accounts, the

Notes to the Accounts

continued

Merger with Henderson Highland Trust plc (continued)

expenses of the merger and the consideration payable for the cancellation of the warrants in Highland are assumed to have been incurred in prior periods and are included in liabilities in the Group balance sheet at 31 December 1996, even though they were actually incurred in 1997.

b The merger was effected by way of a Scheme of Arrangement under Section 425 of the Companies Act 1985 ("the Scheme") which was sanctioned by the High Court of Justice on 21 April 1997. The Company issued 24,821,894 new ordinary shares of 25p to the former Highland shareholders, based on the Relative Formula Asset Values of the two companies at the close of business on 16 April 1997 and the warrants in Highland were cancelled for cash consideration. The total market value of the shares issued was £32,393,000, calculated using the mid-market price at the close of business on 23 April 1997 of 130.5p. The total net assets of the Company and Highland on 23 April 1997, the effective date of the merger, were £40,918,000 and £37,679,000 respectively. On 23 April 1997, following the Scheme becoming effective, Highland cancelled all its issued share capital with a total nominal value of £6,564,000 and New Ordinary Shares of the same nominal value, credited as fully paid, were issued to Sceneuser Limited, a wholly owned subsidiary of the Company.

c The analysis of the principal components of the Statements of Total Return is given below:

(i) Post merger period 24 April 1997 to 31 December 1997 – Group	**Revenue £'000**	**Capital £'000**	**Total £'000**
Gross revenue and capital gains	3,943	10,434	14,377
Net return on ordinary activities before taxation	3,612	10,318	13,930
Taxation	(682)	34	(648)
Net return on ordinary activities after taxation	2,930	10,352	13,282

(ii) Pre merger period 1 January 1997 to 23 April 1997

	Henderson High Income Trust plc			**Henderson Highland Trust plc**		
	Revenue £'000	**Capital £'000**	**Total £'000**	**Revenue £'000**	**Capital £'000**	**Total £'000**
Gross revenue and capital gains	651	1,773	2,424	702	1,755	2,457
Net return on ordinary activities before taxation	561	1,746	2,307	597	1,720	2,317
Taxation	(102)	9	(93)	(129)	11	(118)
Net return on ordinary activities after taxation	459	1,755	2,214	468	1,731	2,199

(iii) Year ended 31 December 1996

	Henderson High Income Trust plc			**Henderson Highland Trust plc**		
	Revenue £'000	**Capital £'000**	**Total £'000**	**Revenue £'000**	**Capital £'000**	**Total £'000**
Gross revenue and capital gains	2,615	2,366	4,981	2,416	1,999	4,415
Net return on ordinary activities before taxation	2,377	2,282	4,659	2,117	1,899	4,016
Taxation	(488)	28	(460)	(532)	31	(501)
Net return on ordinary activities after taxation	1,889	2,310	4,199	1,585	1,930	3,515

Notes to the Accounts
continued

3	Income from fixed asset investments	1997 £'000	1996 £'000
	Franked:		
	Listed – dividends	**3,681**	3,859
	– special dividends	**407**	242
		4,088	4,101
	Unfranked:		
	Listed – interest income	**604**	683
	– foreign income dividends	**377**	133
	– special foreign income dividends	**42**	–
		1,023	816
		5,111	4,917

4	Other interest receivable and similar income	1997 £'000	1996 £'000
	Bank interest	**156**	75
	Underwriting commission	**25**	33
	Stock lending fees	**4**	6
		185	114

There were no securities on loan by the Group for stock lending purposes at 31 December 1997.

The maximum aggregate value of securities on loan at any time during the year ended 31 December 1997 was £3,181,000 (1996: £1,761,000).

5	Management fee	1997 Revenue £'000	1997 Capital £'000	1997 Total £'000	1996 Revenue £'000	1996 Capital £'000	1996 Total £'000
	Management fee	**301**	**151**	**452**	294	146	440
	Irrecoverable VAT thereon	**53**	**26**	**79**	49	25	74
		354	**177**	**531**	343	171	514

A summary of the terms of the management agreement is given in the Directors' Report on page 13.

6	Other administrative expenses	1997 £'000	1996 £'000
	Directors' fees (note 7)	**46**	58
	Auditors' remuneration – for audit services	**15**	16
	– for non audit services	**–**	1
	Other expenses payable to the management company*	**5**	16
	Other expenses	**105**	90
		171	181

In addition to the above, £26,000 was paid to the auditors in respect of non audit services and charged to the share premium account as part of the merger expenses.

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

Notes to the Accounts
continued

7 Directors' emoluments

The directors' fees stated in note 6 are those actually paid by the Group. However, two directors were paid by Henderson plc and its subsidiaries ("Henderson") for the provision of services to the Group. Under the Companies Act 1985 it is necessary to state the amount which they received from Henderson and which relates to the management of the Group even though the Group does not pay these emoluments and is not directly involved in their determination. The Group has been informed that the applicable proportion of these emoluments paid by Henderson (including performance related bonus) was £7,000 (1996: £11,000).

This amount, together with the amounts payable directly by the Group to the other directors, is included in the analysis below:

	1997 £'000	1996 £'000
Fees (paid by the Company)	**35**	35
Salaries and other benefits (paid by Henderson)	**6**	9
Performance related bonus (paid by Henderson)	**1**	2
Total emoluments excluding amounts paid to third parties	**42**	46
Fees paid to third parties (including Henderson)	**11**	23

8 Interest payable	**1997 £'000**	1996 £'000
On bank loans and overdrafts repayable within one year	**2**	26
Less: charged to other non-distributable reserves	**(1)**	(13)
	1	13

9 Taxation on ordinary activities	**1997 £'000**	1996 £'000
Tax credits attributable to franked investment income	**818**	820
Movement on provision for irrecoverable Advance Corporation Tax	**(9)**	109
UK corporation tax at 31.5% (1996: 33%)	**50**	101
Foreign withholding taxes	**21**	28
Overseas taxation reclaimable	**(8)**	(26)
Transfer from deferred tax account	**(13)**	(71)
	859	961
Tax attributable to expenses and interest payable charged to capital	**54**	59
Tax charged to revenue	**913**	1,020

Notes to the Accounts
continued

10 Dividends

Ordinary dividends paid and declared are as follows:

	Year ended 31 December 1997			Year ended 31 December 1996		
	Company £'000	**Highland £'000**	**Total £'000**	Company £'000	Highland £'000	Total £'000
Foreign income dividend 0.91p (1996: nil)	**–**	**239**	**239**	–	–	–
Pre merger interim of 0.302p (1996: nil)	**–**	**79**	**79**	–	–	–
4th interim of 1.50p (1996: 1.50p)	**–**	**271**	**271**	–	261	261
1st interim of 1.65p (1996: 1.60p and 1.50p)	**458**	**–**	**458**	443	394	837
2nd interim of 1.65p (1996: 1.60p and 1.50p)	**868**	**–**	**868**	444	394	838
3rd interim declared 1.70p (1996: 1.60p and 1.55p)	**894**	**–**	**894**	444	407	851
4th interim declared 1.70p (1996: 1.65p and 1.55p)	**895**	**–**	**895**	458	136	594
	3,115	**589**	**3,704**	1,789	1,592	3,381

11 Return per ordinary share

Revenue return per ordinary share is based on earnings attributable to the ordinary shares of £3,857,000 (1996: £3,474,000) and on the 52,603,865 weighted average number of shares in issue during the year (1996: 50,990,495 assuming the 24,821,894 ordinary shares issued in respect of the merger with Highland (see note 2b) were in issue throughout both years).

Capital return per ordinary share is based on net capital gains for the year of £13,838,000 (1996: £4,240,000) and on the 52,603,865 weighted average number of ordinary shares in issue during the year (1996: 50,990,495 assuming the 24,821,894 ordinary shares issued in respect of the merger with Highland (see note 2b) were in issue throughout both years).

12 Fixed asset investments

(a) Group

	£'000
Valuation at 1 January 1997	**73,733**
Unrealised appreciation at 1 January 1997	**(8,613)**
Cost of investments at 1 January 1997	**65,120**
Purchases at cost	**26,929**
Sales at cost	**(23,550)**
Cost of investments at 31 December 1997	**68,499**
Unrealised appreciation at 31 December 1997	**17,670**
Valuation at 31 December 1997	**86,169**

Notes to the Accounts
continued

12 Fixed asset investments (continued)

(b) Company	Subsidiary undertakings £'000	Fixed asset investments £'000	Total £'000
Valuation at 1 January 1997	–	38,183	**38,183**
Unrealised appreciation at 1 January 1997	–	(4,954)	**(4,954)**
Cost of investments at 1 January 1997	–	33,229	**33,229**
Purchases at cost	6,205	52,831	**59,036**
Sales at cost	–	(17,561)	**(17,561)**
Cost of investments at 31 December 1997	6,205	68,499	**74,704**
Unrealised appreciation at 31 December 1997	–	17,670	**17,670**
Valuation at 31 December 1997	**6,205**	**86,169**	**92,374**

Subsidiary undertakings

The Company has an investment in the issued share capital, fully paid, of £2 in its wholly owned subsidiary undertaking Sceneuser Limited ("Sceneuser"), a holding investment company which is incorporated and registered in England. The Company has an indirect holding, through Sceneuser, of the entire issued share capital of 26,257,108 ordinary shares of 25p each in Highland which is incorporated and registered in England. Since merging with the Company, Highland has ceased all business activity.

13 Debtors	Group 1997 £'000	Group 1996 £'000	Company 1997 £'000	Company 1996 £'000
Sales for future settlement	–	103	–	60
Taxation recoverable	**120**	96	**69**	57
Prepayments and accrued income	**951**	830	**951**	494
	1,071	1,029	**1,020**	611

14 **Creditors:** amounts falling due within one year	Group 1997 £'000	Group 1996 £'000	Company 1997 £'000	Company 1996 £'000
Amounts payable to subsidiary undertakings	–	–	**35,450**	–
Purchases for future settlement	**386**	–	**386**	–
Dividends payable on ordinary shares	**1,789**	1,446	**1,789**	903
Taxation payable	**42**	190	**42**	81
Accruals	**48**	166	**43**	54
Other creditors	–	1,932	–	–
	2,265	3,734	**37,710**	1,038

15 Provisions for liabilities and charges	Group £'000	Company £'000
Deferred taxation: on short term timing differences		
At 1 January 1997	13	1
Transfer from revenue account	(13)	(1)
At 31 December 1997	–	–

Notes to the Accounts
continued

16 Share capital	1997 £'000	1996 £'000
Authorised		
80,000,000 (1996: 34,999,843) ordinary shares of 25p each	20,000	8,750

Issued, allotted and fully paid	Number	£'000
At 1 January 1997	27,781,971	6,946
Issued to former shareholders of Highland (see note 2a)	24,821,894	6,205
	52,603,865	13,151

(i) At the Annual General Meeting held on 21 March 1997 it was resolved that 392,500 unissued subscription shares of 0.01p each in the authorised share capital of the Company be converted into and redesignated as 157 ordinary shares of 25p each.

(ii) At an Extraordinary General Meeting held on 21 March 1997 it was resolved that the authorised share capital be increased from £8,750,000 to £20,000,000 by the creation of 45,000,000 additional ordinary shares of 25p each.

(iii) On 23 April 1997 24,821,894 ordinary shares of 25p (with a nominal value of £6,205,473.50) were issued to former Highland shareholders in accordance with a Scheme of Arrangement sanctioned by the High Court of Justice on 21 April 1997.

17 Reserves

(a) Group	Non distributable				Distributable
	Share premium £'000	Merger reserve £'000	Realised reserve £'000	Unrealised appreciation £'000	Revenue £'000
At 1 January 1997 as previously stated – Company only	20,853	–	5,695	4,954	354
Adjustment to incorporate merger with Highland (see note 1b)	(137)	17,784	5,829	3,659	772
At 1 January 1997 as restated – Group	20,716	17,784	11,524	8,613	1,126
Unrealised appreciation of fixed asset investments	–	–	–	9,057	–
Net realised gains on fixed asset investments	–	–	4,905	–	–
Management fee and finance costs charged to capital	–	–	(178)	–	–
Corporation tax relief thereon	–	–	54	–	–
Retained revenue for the year	–	–	–	–	153
At 31 December 1997	**20,716**	**17,784**	**16,305**	**17,670**	**1,279**

(b) Company	Non distributable			Distributable
	Share premium £'000	Realised reserve £'000	Unrealised appreciation £'000	Revenue £'000
At 1 January 1997	20,853	5,695	4,954	354
Merger expenses	(137)	–	–	–
Unrealised appreciation of fixed asset investments	–	–	8,780	–
Net realised gains on fixed asset investments	–	3,431	–	–
Management fee and finance costs charged to capital	–	(145)	–	–
Corporation tax relief thereon	–	46	–	–
Retained revenue for the year	–	–	–	619
At 31 December 1997	**20,716**	**9,027**	**13,734**	**973**

Notes to the Accounts
continued

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 £3,734,000 (1996: 1,889,000).

19 Group reconciliation of movement in shareholders' funds

	1997 £'000	1996 £'000
Net revenue on ordinary activities after taxation	**3,857**	3,474
Dividends	**(3,704)**	(3,381)
	153	93
Increase in realised and unrealised profits	**13,838**	4,240
	13,991	4,333
Proceeds from share issues, exercise of warrant rights and conversion of subscription shares	**–**	3,855
Shareholders funds at 1 January as restated to reflect the merger with Highland (see note 1b)	**72,914**	64,726
Shareholders' funds at 31 December	**86,905**	72,914

20 Net asset value per ordinary share

The Group net asset value per ordinary share is based on Group net assets attributable to ordinary shares of £86,905,000 (1996: £72,914,000) and on 52,603,865 ordinary shares in issue at 31 December 1997 (1996: 52,603,865 assuming the 24,821,894 ordinary shares issued in respect of the merger with Highland were also in issue at 31 December 1996).

The movements during the year of the assets attributable to the ordinary shares were as follows:

	£'000
Total net assets at 1 January 1997	**72,914**
Total net return on ordinary activities after taxation	**17,695**
Dividends	**(3,704)**
Total net assets at 31 December 1997	**86,905**

21 Reconciliation of operating revenue to net cash inflow

	1997 £'000	1996 £'000
Net return before interest payable and taxation	**4,771**	4,507
(Increase)/decrease in accrued income	**(162)**	19
Increase in other debtors	**–**	(5)
(Decrease)/increase in creditors	**(112)**	47
Tax on investment income included in income from UK companies	**(891)**	(968)
Management fee charged to capital	**(177)**	(171)
Net cash inflow from operating activities	**3,429**	3,429

Notes to the Accounts
continued

22 Analysis of changes in net funds	1 January 1997 £'000	Cash flow £'000	31 December 1997 £'000
Cash at bank	**1,899**	**31**	**1,930**

23 Contingent liabilities	Group 1997 £'000	Group 1996 £'000	Company 1997 £'000	Company 1996 £'000
Underwriting commitments	–	362	–	166
Partly paid shares	–	318	–	318

24 Related party transactions

Under the terms of an agreement dated 23 November 1994 the Company appointed wholly owned subsidiary companies of Henderson plc ("Henderson") to provide investment management, accounting, secretarial, administrative and UK custody services. Details of the fee arrangements for these services are given in the Directors' Report on page 13. The total of the fees payable by the Group under this agreement to Henderson in respect of the year ended 31 December 1997 was £452,000 excluding VAT (1996: £440,000) of which £8,000 was outstanding at 31 December 1997 (1996: £68,000).

In addition to the above services Henderson has provided the Group with share plan administration services during the year. The total fees payable for these services for the year ended 31 December 1997, (excluding VAT) amounted to £5,000 (1996: £16,000), of which £1,000 was outstanding at 31 December 1997 (1996: £7,000).

The merger agreement dated 25 February 1997 between the Company, Highland and Henderson Financial Management Limited (now Henderson Investors Limited) sets out the parties' agreement to effect the merger of the Company with Highland by way of a Scheme of Arrangement. In accordance with the provisions of the Scheme, the following transactions occurred during the year:

(a) Highland sold its investment portfolio to the Company on 22 April 1997 for a consideration of £34,665,000; and

(b) merger costs amounting to £439,000 were incurred and were charged 25% to the Company and 75% to Highland for the purposes of calculating the Relative Formula Asset Values of the two companies at the close of business on 16 April 1997.

Notice of Meeting

Notice is hereby given that the ninth Annual General Meeting of Henderson High Income Trust plc will be held at 3 Finsbury Avenue, London EC2M 2PA on Wednesday 29 April 1998 at 12.30pm for the transaction of the following business:

Ordinary Business

1 To receive the directors' report and the audited accounts for the year ended 31 December 1997.

2 To re-appoint Sir Anthony Beaumont-Dark as a director of the Company.

3 To re-appoint Sir William Stuttaford as a director of the Company.

4 To re-appoint Mr P C J Dalby as a director of the Company.

5 To re-appoint Sir John Stanley as a director of the Company.

6 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 special resolutions:

7 (a) THAT the directors be and they are hereby generally and unconditionally authorised pursuant to and in accordance with Section 80 of the Companies Act 1985 to exercise for the period commencing on the date of the passing of this resolution and ending on the date of the Company's next Annual General Meeting, all the powers of the Company to allot relevant securities (as defined in Section 80(2) of the said Act) up to an aggregate nominal amount of £657,548;

(b) in exercise of such authority the directors be and they are hereby empowered to allot equity securities (as defined in Section 94(2) of the said Act) wholly for cash generally up to an aggregate nominal amount of £657,548 as if Section 89(1) of the said Act did not apply to any such allotment; and

(c) the Company may during such period make offers or agreements which would or might require the making of allotments of equity securities or relevant securities as the case may be after the expiry of such period and the directors may allot equity securities or relevant securities as the case may be in pursuance of such an offer or agreement as if the power and authority hereby conferred had not expired.

8 THAT the Company be and it is hereby authorised to make market purchases (within the meaning of Section 163(3) of the Companies Act 1985) of ordinary shares of 25p each in the capital of the Company ("ordinary shares") upon and subject to the following conditions:

(a) the maximum number of ordinary shares which may be purchased is 1,578,115 ordinary shares representing 3% of the Company's issued ordinary share capital;

(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 preceding the date of purchase;

(c) the minimum price (exclusive of expenses) which may be paid for an ordinary share shall be 25p, being the nominal value per ordinary share; and

Notice of Meeting
continued

Special Business (continued)

(d) this authority shall expire at the conclusion of the next Annual General Meeting of the Company or within 12 months from the date of passing this resolution, whichever shall be the earlier 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 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

R E Fieldwick

Henderson Secretarial Services Limited, Secretary

5 March 1998

Notes

1 A shareholder entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote on his behalf. A proxy need not be a member of the Company.

2 A form of proxy is enclosed. To be valid the enclosed form of proxy must be completed and deposited at the office of the Company's registrar not less than 48 hours before the time appointed for holding the meeting.

3 Pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995, only those shareholders registered in the register of members of the Company at 10pm on 27 April 1998 shall be entitled to attend and/or vote at the Annual General 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 10pm on 27 April 1998 shall be disregarded in determining the rights of any person to attend or vote at the Meeting.

4 The register of directors' interests, kept by the Company in accordance with Section 325 of the Companies Act 1985, will be open for inspection at the Annual General Meeting.

Financial Calendar

Results

Half year results are announced at the end of August.

Full year results are announced at the end of February.

The Annual General Meeting will be held in London on 29 April 1998.

Dividend Payments

Ordinary shares:

first interim payable	31 July
second interim payable	31 October
third interim payable	31 January
fourth interim payable	30 April

Information

The market price of the Company's ordinary shares is published daily in the Financial Times, The Times, The Daily Telegraph, The Guardian and The Independent.

Directors, Officers and Other Information

Directors
Sir Anthony Beaumont-Dark (Chairman)
Sir William Stuttaford, CBE (Deputy Chairman)
J S Curtis
P C J Dalby
C Dunkerley
W D Eason
The Rt. Hon Sir John Stanley, MP

Investment Manager
Henderson Investors Limited (a wholly owned subsidiary of Henderson plc) regulated by IMRO and the Personal Investment Authority, represented by Mrs C S E Murphy and A A Crooke
3 Finsbury Avenue
London EC2M 2PA
Telephone:
BT: 0171 638 5757
Mercury: 0171 410 4100
Fax: 0171 377 5742

Secretary
Henderson Secretarial Services Limited, represented by Miss R E Fieldwick, ACIS

Registered Office
3 Finsbury Avenue
London EC2M 2PA
Telephone:
BT: 0171 638 5757
Mercury: 0171 410 4100
Fax: 0171 377 5742

Registered Number
Registered as an investment company in England and Wales No. 2422514

Registrar
The Royal Bank of Scotland plc
Registrar
PO Box 435, Owen House
8 Bankhead Crossway North
Edinburgh EH11 4BR
Telephone: 0131 523 6666

The Royal Bank of Scotland has agreed to transfer its registration business to Computershare Services PLC. Legal completion is scheduled to take place on or around 12 March 1998.

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

Stockbrokers
Cazenove & Co.
12 Tokenhouse Yard
London EC2R 7AN

NatWest Securities Limited
135 Bishopsgate
London EC2M 3XT

Solicitors
Slaughter and May
35 Basinghall Street
London EC2V 5DB

Bankers
Chase Manhattan Bank N.A.
125 London Wall
London EC2Y 5AJ

AITC A member of The Association of Investment Trust Companies.

Henderson Investors Investment Trust Share Plan

The Henderson Investors Investment Trust Share Plan offers a simple and flexible way of investing in Henderson High Income Trust plc. The Share Plan offers the following:

- **Regular savings from £50 per month/quarter or lump sum investments from £500**
- **A Share Exchange Service, whereby you can sell existing UK company shares, unit trusts or gilts, and reinvest the proceeds in the Company**
- **An income reinvestment facility. Alternatively, dividends can be paid to your bank or building society account**
- **All paperwork and documentation is simplified and reduced to a minimum**
- **Half yearly valuations and complimentary newsletters**

Henderson Investors Selection PEP

You can invest directly in Henderson High Income Trust plc through the Henderson Investors Selection PEP. The PEP offers the following facilities:

- **Tax free income and tax free growth**
- **No initial PEP charges**
- **Fixed annual management charge of £30 (+VAT)**
- **Regular savings from £100 per month, or lump sum investments from £2,000**
- **Quarterly income withdrawal facility**
- **Half yearly valuations, reports and complimentary newsletters**

Further Information

For a full information pack on the Henderson Investors Investment Trust Share Plan and the Henderson Investors Selection PEP, please write to:

Henderson Investors, FREEPOST, Newbury, RG14 2ZZ.

No stamp is required. Alternatively, please contact your Professional Adviser for further information or call our Investor Services Department at local rate on 0345 212 256 quoting the reference REPORT. Please call (44) 171 452 1315 if you are telephoning from abroad.

Please remember that the value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations 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 upon your individual circumstances. Please note that the Government has outlined plans for Individual Savings Accounts, a new vehicle, to replace PEPs in April 1999. However, it appears certain that existing PEPs will retain their tax advantage until April 1999.

Henderson Investors

H1218/1997