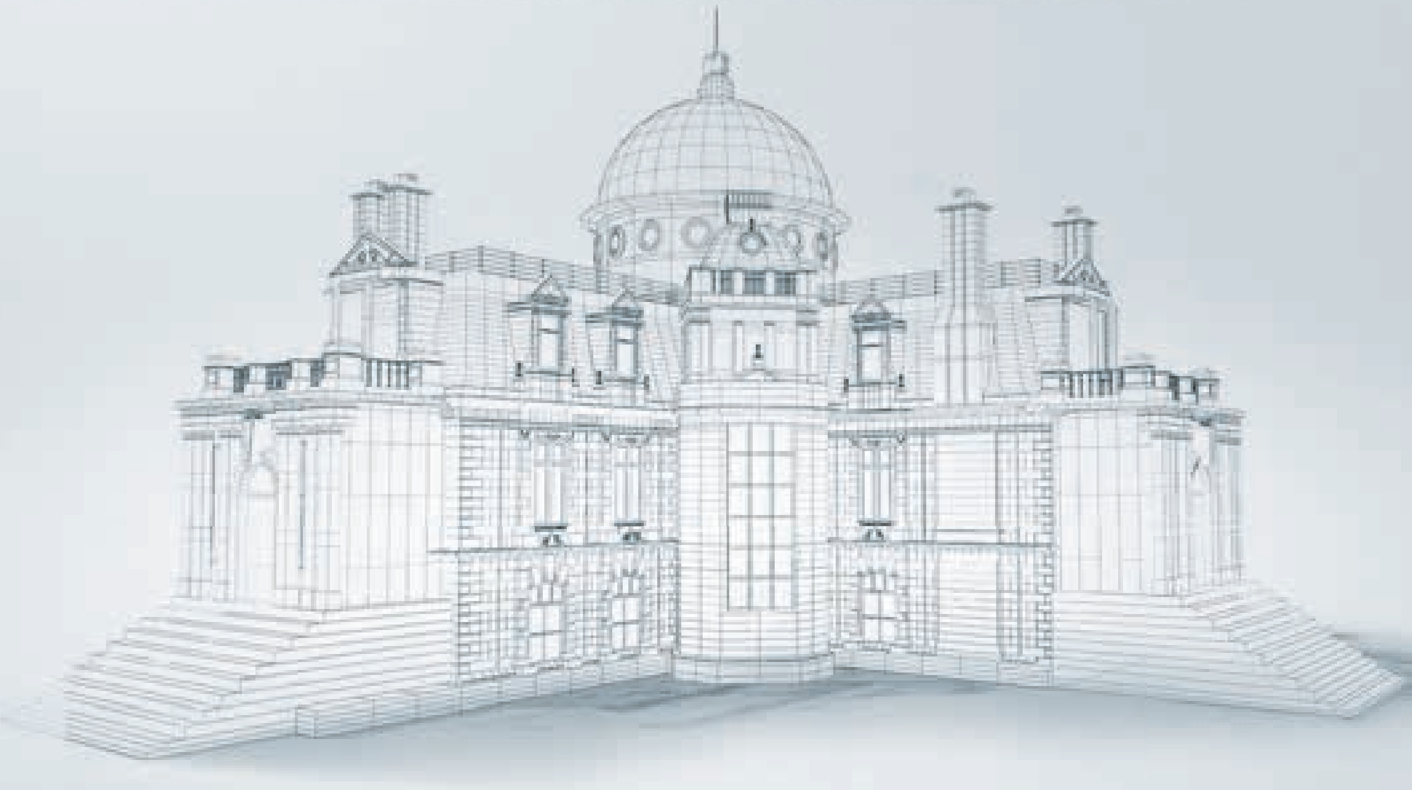
HENDERSON HIGH INCOME TRUST PLC

Annual Report 2016



INVESTMENT WEEK
INVESTMENT COMPANY OF THE YEAR AWARDS 2016
WINNER
UK EQUITY AND BOND INCOME

Moneywise Investment Trust awards 2016
WINNER
UK EQUITY & BOND INCOME
Henderson High Income

moneywise Investment Trust awards 2017
WINNER
UK EQUITY & BOND INCOME
Henderson High Income

MANAGED BY
Henderson
GLOBAL INVESTORS

Contents

The image on the front cover is based on the Greenwich Royal Observatory, London.

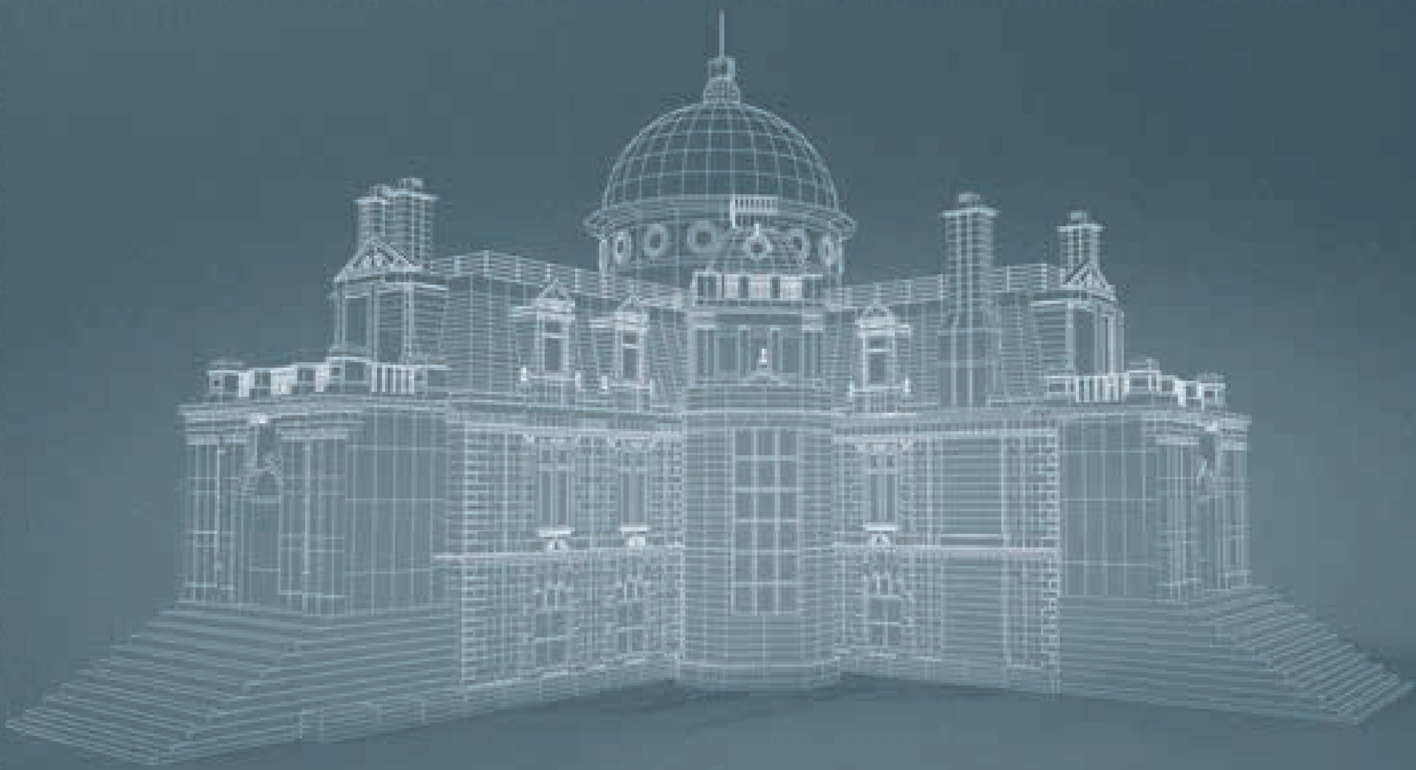
Strategic Report

Investment objective

The Company invests in a prudently diversified selection of both well known and smaller companies to provide investors with a high dividend income stream while also maintaining the prospect of capital growth.

Investment strategy

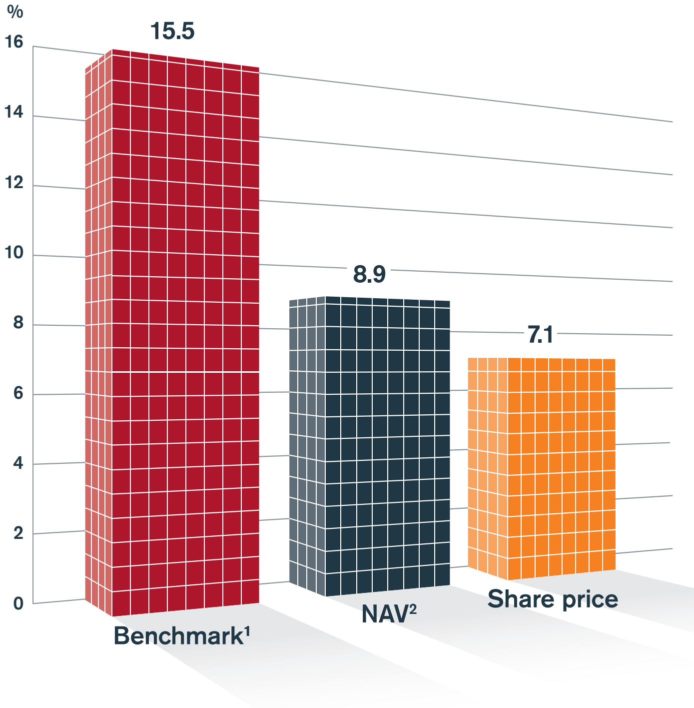
A substantial majority of the Company's assets are currently invested in ordinary shares of listed companies with the balance in listed fixed interest stocks. The Company invests predominantly in companies listed in the UK and does not expect to invest more than 20% of total assets in non-UK listed companies. The selection process seeks to identify companies with strong balance sheets that are capable of paying 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.



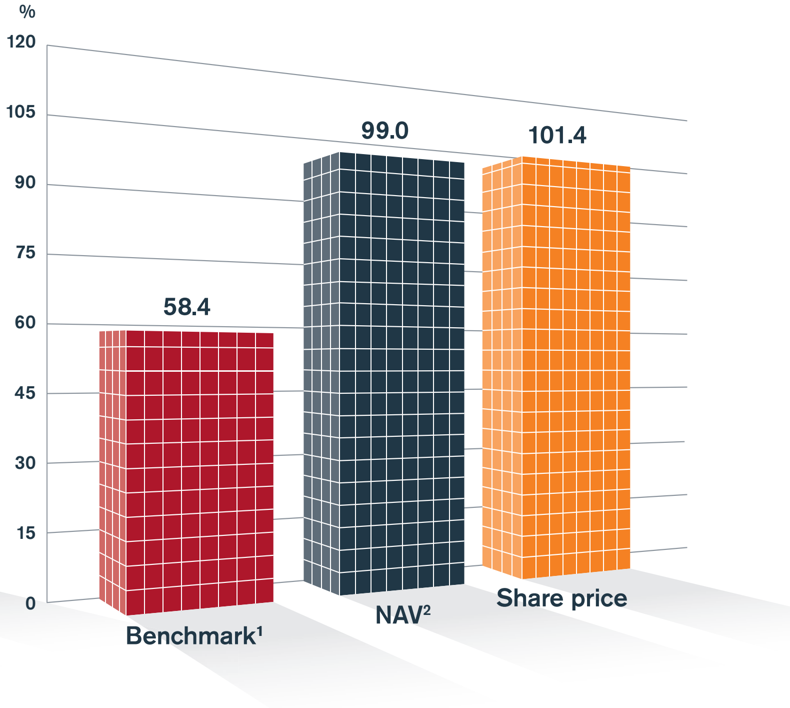
Strategic Report: Performance Highlights

Total return performance to 31 December 2016

One year

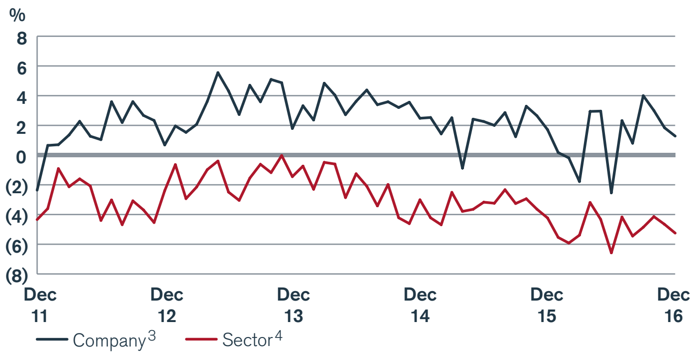


Five years



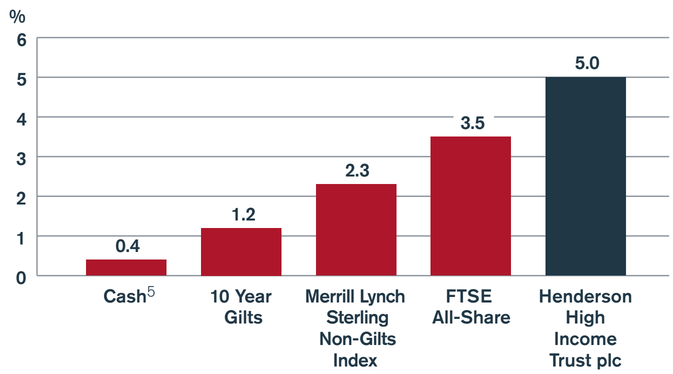
Premium/(discount) to 31 December 2016

Five years

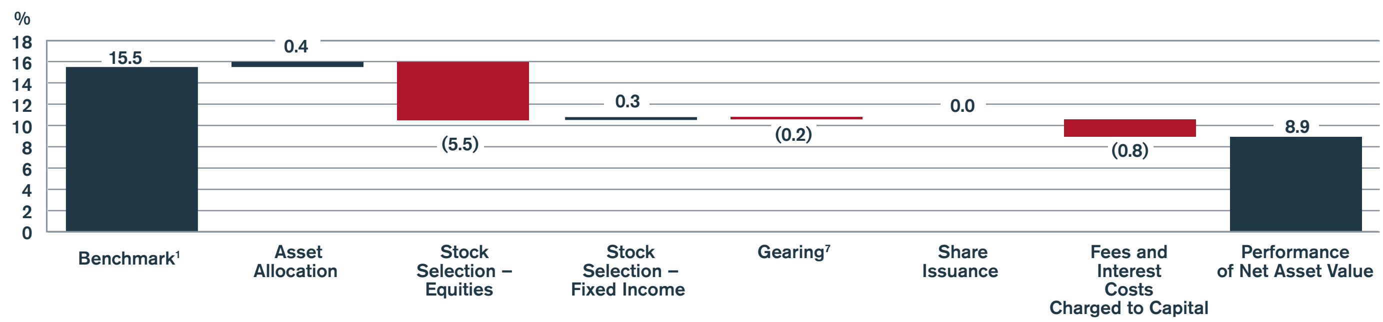


Income yield

as at 31 December 2016



Attribution[6] – explanation of movement in net asset value (total return) in 2016



Strategic Report: Performance Highlights (continued)

NAV per share (debt at par value)[8]

2016 **185.56p**

2015 177.47p

Mid-market price per share

2016 **183.63p**

2015 180.50p

Revenue return per share

2016 **9.93p**

2015 9.96p

Net assets

2016 **£207.7m**

2015 £197.1m

Dividend for the year

2016 **9.15p**

2015 8.90p

Dividend yield[9]

2016 **5.0%**

2015 4.9%

Ongoing charge for the year[10]

2016 **0.81%**

2015 0.79%

Gearing

2016 **21.8%**

2015 22.7%

1 The benchmark is a composite of 80% of the FTSE All-Share Index (total return) and 20% of the Merrill Lynch Sterling Non-Gilts Index (total return) rebalanced annually
2 Net asset value per share total return (including dividends reinvested and excluding transaction costs) with debt at fair value
3 Premium based on net asset value with debt at fair value
4 The AIC Equity and Bond Income sector
5 Cash based on 3 month LIBOR
6 Geometric returns
7 Includes -1.1% impact from valuing the senior unsecured note at fair value
8 Net asset value with debt at amortised cost
9 Based on the dividends paid or recommended for the year and the share price at the year end
10 The ongoing charge excludes the performance fee. There was no performance fee for the year ended 31 December 2016. The ongoing charge including performance fee was 1.42% for the year ended 31 December 2015

A glossary of terms is included on pages 21 and 22

Sources: Morningstar Direct, Henderson, DataStream and AIC. All data is either as at 31 December 2016 or for the year ended 31 December 2016

Strategic Report: Business Model

Investment objective

The Company invests in a prudently diversified selection of both well known and smaller companies to provide investors with a high dividend income stream while also maintaining the prospect of capital growth.

Investment strategy

A substantial majority of the Company's assets are currently invested in ordinary shares of listed companies with the balance in listed fixed interest stocks. The Company invests predominantly in companies listed in the UK and does not expect to invest more than 20% of total assets in non-UK listed companies. The selection process seeks to identify companies with strong balance sheets that are capable of paying 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.

Investment policy

The Company will not invest more than 15% of its total assets in any single investment, nor will it invest more than 15% of its total assets in other investment trusts or investment companies. The Company has an active policy of using appropriate levels of gearing, both in the form of bank and longer term borrowings, principally to enhance income returns but also to achieve capital growth over time. A degree of gearing is usually employed with respect to the fixed interest portion of the Company's portfolio in order to generate additional income. The drawdown of floating rate borrowings is principally in sterling but may be in other currencies, provided that these borrowings do not exceed the assets held in that particular currency at time of acquisition. The gross level of borrowings at drawdown will not be greater than 40% of the total value of the Company's investments.

The portfolio is diverse, containing a sufficient range of investments to ensure that no single investment puts undue risk on the sustainability of the income generated by the portfolio or indeed the capital value. Regard is also given to having a broad mix of companies in the portfolio, as well as a spread of risk across a range of economic sectors.

Management

The Company qualifies as an Alternative Investment Fund in accordance with the Alternative Investment Fund Managers Directive. The Company has appointed Henderson Investment Funds Limited ('HIFL') to act as its Alternative Investment Fund Manager in accordance with an agreement which was effective from 22 July 2014 and may be terminated on six months' notice. HIFL delegates investment management services to Henderson Global Investors Limited. Both entities are authorised and regulated by the Financial Conduct Authority ('FCA'). References to Henderson within this Annual Report refer to the services provided by both entities.

The fund management team is led by David Smith, who was appointed as the Company's Fund Manager on 30 July 2015 after co-managing the portfolio with Alex Crooke since January 2014.

Henderson and its subsidiaries provide accounting, company secretarial and general administrative services. Some of the administration and accounting services are carried out, on behalf of Henderson, by BNP Paribas Securities Services. Hannah Blackmore ACIS acts as Company Secretary on behalf of the Corporate Secretary, Henderson Secretarial Services Limited.

The Investment Management Agreement with Henderson to provide the services referred to above is reviewed by the Board annually and provides for both a base management fee and a performance fee. Performance is measured over a single financial year.

Management fee

The base management fee is 0.5% of the average value of gross assets less current liabilities, but excluding any debt used for investment purposes recorded within current liabilities and excluding any Henderson managed funds or Henderson Group plc shares within the portfolio ('adjusted gross assets'). This average value is calculated by using the values on the last day of each of the two calendar years preceding the reporting year. The base management fee is payable quarterly in arrears.

In addition a supplemental base management fee is paid on any new funds in relation to share issues in the year they were raised, at the pro-rata annual rate. For the following year any funds raised are added to prior year assets for the purposes of calculating the fee.

Performance fee

Performance is measured by calculating the difference between the annual percentage change in net asset value per ordinary share and the benchmark equivalent. The benchmark is a composite of 80% of the FTSE All-Share Index (total return) and 20% of the Merrill Lynch Sterling Non-Gilts Index (total return). A 1% hurdle is deducted from any relative outperformance before any performance fee can be paid. A performance fee of 15% is awarded on this relative excess performance less the 1% hurdle and applied to the current year's average adjusted gross assets.

Fees are subject to a cap. In any one financial year total fees (the combined base management and performance fees) cannot exceed 1% of average adjusted gross assets for the current year. Any unrewarded outperformance above this cap is carried forward for a maximum of three years but may only be used to offset any underperformance and cannot in itself earn a performance fee.

Any underperformance relative to the benchmark will be carried forward and no performance fee will be payable until positive performance exceeds any past negative performance.

The fees have been structured in this way so that shareholders will only pay a relatively low base management fee in any years of individual or cumulative underperformance.

Strategic Report: Chairman's Statement

The Chairman of the Board, Margaret Littlejohns, reports on the year to 31 December 2016

Performance

2016 was an eventful year, to say the least, and a challenging one for the Company. Not only did we have to contend with the Brexit vote in June and its potential impact on our domestic economy but we also had to take account of Donald Trump's surprise victory in the US presidential elections in November and its ramifications for the world as a whole. Notwithstanding, the FTSE All-Share index has surged ahead, primarily propelled by the larger companies within the FTSE 100. This has contributed to strong positive returns for the Company's portfolio in the second half of the year, delivering a total net asset value return of 8.9% for the full year.

Despite this positive annual return, the share price significantly underperformed our benchmark's total return of 15.5%. It is important to remember, however, that the Company's long term performance remains strong with a share price total return of 101.4% over the last 5 years compared with the benchmark's 58.4% return. As I explained in our half year report, the Company's portfolio comprised a greater proportion of domestically focussed medium and small sized companies than the benchmark, as their potential for total returns was viewed as more attractive. Their share prices were severely impacted by the UK's decision to exit the EU, with investors initially fearful of a UK recession. Larger companies with global operations and foreign earnings, the main constituents of the FTSE 100, drove the strong equity market returns during the year. These companies benefited greatly from sterling weakening following Brexit and the dollar strengthening on the back of a US interest rate rise and the anticipation of President Trump's stated policies to generate growth. Indeed, the five best performing stocks of the FTSE 100 in 2016 were mining companies which recovered very strongly from their low valuations at the start of the year as fears of falling Chinese growth diminished and optimism about the prospects for the global economy continued to improve.

About 10% of the Company's portfolio was invested in corporate bonds throughout the year, less than the 20% bond component of our benchmark. Although the 30 year bull run for bonds seems to be nearing its end and investors are rotating into equities, bonds still play a necessary, but lesser, role in our portfolio. They contribute to increasing the overall yield of the Company and help provide a high income stream to shareholders.

Dividends

In our half year report we were confident that we could sustain the level of quarterly dividend for the rest of the year in spite of increased economic uncertainty following the EU referendum. I am pleased to report that we increased our fourth interim dividend to 2.325p, making a total of 9.15p per share for 2016, growth of 2.8% on the previous year. This total was more than covered by total revenue of 9.93p per share for the full year. The dividend yield on the Company's share price as at year end was 5%, significantly higher than the yield of our benchmark of 3.3%.

While steadily increasing our annual dividend each year over the last four years, we have also managed to replenish our revenue reserves, providing us with a larger cushion and flexibility for the future. It remains the Board's objective to increase the Company's dividend gradually, subject to investment conditions at the time and whether we determine such an increase to be sustainable in the years ahead. In order to assess this, we will continually monitor the level of income received by the Company, our investments' ability to grow dividends and the level of our own revenue reserves.

A first interim dividend of 2.325p per ordinary share in respect of the year ending 31 December 2017 was announced on 14 March 2017. This will be paid on 28 April 2017 to holders registered at the close of business on 7 April 2017. The Company's shares will go ex-dividend on 6 April 2017.

Gearing

The Company's policy on the use of gearing is explained in the investment policy on page 4 of the Annual Report. The level of gearing employed through the year has remained more or less constant at 23%, and ended the year slightly lower at 21.8%. It is this ability to borrow that differentiates us from unit trusts, allowing us to enhance total returns to shareholders; for the Company this is particularly useful for generating additional income. Shareholders may remember that in 2015 we issued a £20 million fixed rate 19 year senior unsecured note at a rate of 3.67% to provide us with future security. This year we took the decision to report two different net asset values per share, one with this fixed rate debt valued at par (at its original price less amortised issuance costs) and the other with this fixed rate debt at fair value (its current estimated market price).

Strategic Report: Chairman's Statement (continued)

With bond yields now lower than at issuance, the fair value of the debt is higher as there is an inverse relationship between price and yield. For the time being, this results in a 1.1% reduction in the net asset value per share. Although the senior unsecured note was issued at a higher coupon than the prevailing rate, we consider it prudent to have locked in a relatively low fixed rate for the long term which we believe will prove beneficial for our shareholders.

Growth

As a result of ongoing investor demand, our shares have continued to trade at a premium for most of the year. Within the authority granted to the Board by shareholders at our last Annual General Meeting, we issued 875,000 new shares at a premium to net asset value (with debt at par value).

On 17 March 2017 we were delighted to announce that the Board of Threadneedle UK Select Trust Limited ('Threadneedle UK Select') had chosen the Company as the roll-over option for their shareholders under a scheme of reconstruction to become effective by the end of June. Under the proposed scheme, their shareholders will have the opportunity to exchange their investment for Henderson High Income Trust plc shares on a NAV for NAV basis (with debt at par value). In the light of ongoing investor demand for the Company's ordinary shares, the Board are also using this opportunity to put in place, within the same prospectus, a 12 month share issuance programme, enabling the Company to issue new ordinary shares at a small premium to NAV (with debt at par value). The Board intends to commence this issuance programme with an initial offer of new ordinary shares at a 1% premium to net asset value (with debt at par value) to complete at the same time as the Threadneedle UK Select Scheme. Our existing shareholders will not bear any of the costs of either of these proposals as a result of a costs contribution by Henderson. For further details of the Scheme, the share issuance programme and the initial offer, please consult the announcement, released on 17 March 2017 and in due course, the related documentation which will be posted to shareholders. The proposals will be subject to shareholder approval by both companies and a general meeting of the Company will be convened for this purpose.

The Board is fully supportive of the proposed transaction with Threadneedle UK Select. We believe it is in the best interest of all of our shareholders for the Company to grow and widen its shareholder base as this should ultimately provide the benefit of increased liquidity in the Company's shares and reduced ongoing charges per share by spreading the Company's fixed costs over a larger capital base.

In the meantime, we will be asking shareholders at the forthcoming Annual General Meeting to renew the Board's existing authority to issue shares and disapply pre-emption rights.

Annual General Meeting ('AGM')

The Annual General Meeting will be held at the office of Henderson Global Investors at 201 Bishopsgate, London, EC2M 3AE on Tuesday 9 May 2017 at 12 noon. In addition to the formal part of the meeting, there will be a presentation from our Fund Manager, David Smith, on the portfolio and its performance. There will also be the opportunity to meet the Board, the Fund Manager and other representatives of Henderson after the meeting. We look forward to seeing as many of you as possible. We encourage those of you who are unable to attend this meeting to use your proxy votes.

Prospects and outlook

After last year's unexpected events, it would be foolish to make any predictions for 2017, other than to suggest it will be yet another period of uncertainty both within the UK and beyond. At this stage it is unclear how Brexit negotiations will progress and what effect they might have on domestic economic growth, inflation and employment in either the short or long run. We also need to wait and see if President Trump's campaign promises of US job creation, tax cuts and infrastructure spending will materialise and boost growth or if protectionist measures will restrict global trade. In addition, there remains considerable political risk within Europe, as France and Germany go to the polls during the course of 2017 and the future of the European Union remains under close scrutiny.

After many years of quantitative easing, there appears to be a shift from loose monetary policy by central banks to more fiscal stimulus by governments, resulting in a steepening yield curve in the UK and US as expectations of inflation increase. Despite potential volatility in the equity markets, dividend income will continue to be highly valued by investors given the low income returns available from cash and bonds which are unlikely to change in the near term in the absence of short term hikes in interest rates.

Against this backdrop of uncertainty, there are still many companies with robust balance sheets and excellent management that deliver superior products and services, generate strong cash flow and pay out attractive dividends to their investors. I am confident that our Fund Manager, David Smith, will use his active stock picking abilities to hunt out the best of these for the portfolio in pursuit of the high income stream that is appreciated by our shareholders.

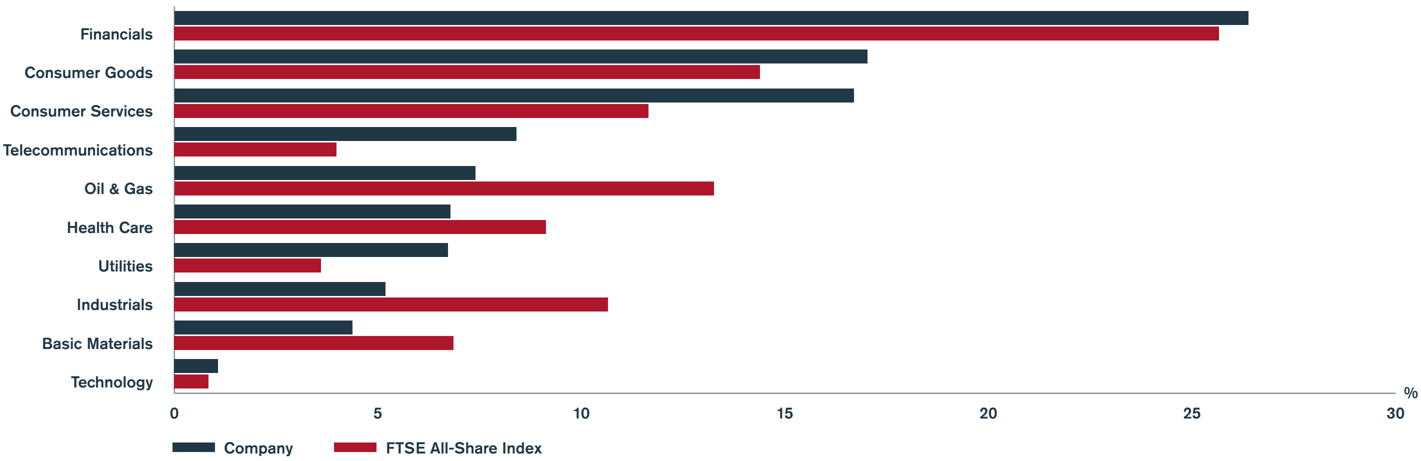
Strategic Report: Portfolio Information

Sector exposure at 31 December

Excluding cash

Sector	2016 £'000	2016 Percentage of portfolio	2015 £'000	2015 Percentage of portfolio
Preference Shares	4,285	1.7	4,051	1.7
Other Fixed Interest	21,856	8.6	21,169	8.8
Total Fixed Interest	**26,141**	**10.3**	**25,220**	**10.5**
Financials	59,074	23.4	54,708	22.6
Consumer Goods	38,630	15.3	38,427	15.9
Consumer Services	37,853	15.0	37,349	15.4
Telecommunications	19,043	7.5	23,475	9.7
Oil & Gas	16,758	6.6	10,396	4.3
Health Care	15,385	6.1	13,217	5.5
Utilities	15,232	6.0	19,600	8.1
Industrials	12,547	4.9	9,993	4.1
Basic Materials	9,910	3.9	6,565	2.7
Technology	2,417	1.0	2,962	1.2
Total Equities	**226,849**	**89.7**	**216,629**	**89.5**
Total	**252,990**	**100.0**	**241,912**	**100.0**

Equity sector underweights/overweights at 31 December 2016



Ten largest investments at 31 December

Position	Company	Sector	2016 Market value £'000	2016 Percentage of portfolio	2015 Market value £'000	2015 Percentage of portfolio
1	British American Tobacco	Consumer Goods	10,003	4.0	9,529	3.9
2	Royal Dutch Shell	Oil & Gas	9,280	3.7	5,202	2.2
3	AstraZeneca	Health Care	9,037	3.6	9,335	3.9
4	Diageo	Consumer Goods	7,580	3.0	6,860	2.8
5	BP	Oil & Gas	7,478	3.0	5,194	2.1
6	HSBC[1]	Financials	6,882	2.7	5,844	2.4
7	Imperial Brands	Consumer Goods	6,271	2.5	6,067	2.5
8	Lloyds Banking Group[1]	Financials	6,141	2.4	3,195	1.3
9	BT	Telecommunications	5,848	2.3	7,500	3.1
10	Vodafone	Telecommunications	5,835	2.3	5,980	2.5
Total			**74,355**	**29.5**	**64,706**	**26.7**

1 Includes fixed interest

Strategic Report: Investment Portfolio

Investments: Fixed interest

	Total 31 December 2016 £'000
Preference Shares	
General Accident 8.875%	1,144
Middlefield Canadian Inc 7%	765
National Westminster Bank 9%	667
Nationwide Building Society 10.25%	1,709
Total Preference Shares	**4,285**

	£'000
Other Fixed Interest	
Aviva 6.125% Perpetual	1,032
AXA 5.625% 2054	683
Barclays Bank 6.278% Perpetual	937
BUPA 6.125% 2049	1,230
CCO 5.875% 2027	378
Chartered Communications 6.484% 2045	1,310
Co-op 5.625% 2020	1,241
CPUK 7% 2020	1,442
HBOS 7.881% Perpetual	1,013
HSBC Bank 5.844% 2049	556
Iron Mountain 6.125% 2022	1,688
Orange 5.75% Perpetual	1,041
RAC 4.565% 2023	326
RAC 4.87% 2026	1,327
RBS Capital Trust 6.425% Perpetual	493
Service Corporation International 8% 2021	1,490
Standard Life 6.75% Perpetual	942
Tesco 5.5% 2033	1,133
Unitymedia 6.125% 2025	1,434
Verizon Communications 6.55% 2043	591
Virgin Media 6.25% 2029	1,569
Total Other Fixed Interest	**21,856**
TOTAL FIXED INTEREST	**26,141**

Investments: Equities

OIL & GAS	Total 31 December 2016 £'000
Oil & Gas Producers	
BP	7,478
Royal Dutch Shell	9,280
Total Oil & Gas	**16,758**

BASIC MATERIALS	£'000
Chemicals	
Johnson Matthey	2,538
Victrex	3,043
Mining	
Rio Tinto	4,329
Total Basic Materials	**9,910**

INDUSTRIALS	£'000
Aerospace & Defence	
BAE Systems	2,636
Senior	943
Construction & Materials	
Balfour Beatty[1]	794
Marshalls	1,509
General Industrials	
Smith (DS)	2,509
Industrial Transportation	
Goldenport (Greece)	–
Support Services	
Connect Group	740
De La Rue	1,384
Essentra	2,032
Total Industrials	**12,547**

CONSUMER GOODS	£'000
Beverages	
Diageo	7,580
Food Producers	
Cranswick	2,359
Dairy Crest	1,509
Hilton Food	3,109
Tate & Lyle	1,715
Household Goods & Home Construction	
Galliford Try	3,804
Persimmon	2,280
Tobacco	
British American Tobacco	10,003
Imperial Brands	6,271
Total Consumer Goods	**38,630**

HEALTH CARE	£'000
Pharmaceuticals & Biotechnology	
AstraZeneca	9,037
GlaxoSmithKline	4,417
Roche (Switzerland)	1,931
Total Health Care	**15,385**

1 Includes convertibles

Strategic Report: Investment Portfolio (continued)

Investments: Equities

CONSUMER SERVICES	Total 31 December 2016 £'000
General Retailers	
Marks & Spencer	2,078
Next	2,072
Pets at Home	1,072
Media	
Informa	4,344
ITV	3,551
Pearson	3,336
RELX (Netherlands)	5,020
Sky	4,797
Travel & Leisure	
Compass	2,824
Go-Ahead	2,849
Greene King	2,265
Marstons	669
Specialist Investment Property	9
TUI AG	1,251
Whitbread	1,716
Total Consumer Services	**37,853**

TELECOMMUNICATIONS	£'000
Fixed Line Telecommunications	
BT	5,848
Kcom	1,512
Manx Telecom	1,391
Verizon Communications (United States)	2,175
Mobile Telecommunications	
Inmarsat	2,282
Vodafone	5,835
Total Telecommunications	**19,043**

UTILITIES	£'000
Electricity	
SSE	2,878
Gas, Water & Multiutilities	
Centrica	2,232
National Grid	4,002
Severn Trent	3,437
United Utilities	2,683
Total Utilities	**15,232**

FINANCIALS	Total 31 December 2016 £'000
Banks	
Barclays	3,282
HSBC	6,326
ING (Netherlands)	2,257
Lloyds Banking Group	5,128
Nonlife Insurance	
Jardine Lloyd Thompson	2,173
Munich Re	1,588
Life Insurance	
Chesnara	2,900
Legal & General	2,309
Phoenix	3,926
Standard Life	4,436
Real Estate Investment Trusts	
Big Yellow	2,098
Hammerson	2,430
Land Securities	1,324
Financial Services	
Brewin Dolphin	2,450
Intermediate Capital	2,990
Jupiter Fund Management	2,423
Paragon	1,984
Equity Investment Instruments	
Greencoat UK Wind	1,583
John Laing Infrastructure Fund	2,918
Blackstone/GSO Loan Funding (Jersey)	1,593
Carador Income Fund (Ireland)	2,956
Total Financials	**59,074**

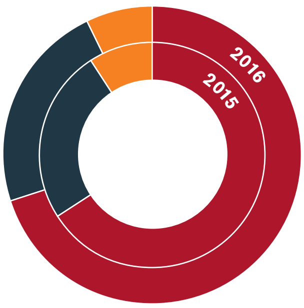
TECHNOLOGY	£'000
Software & Computer Services	
Sage	2,417
Total Technology	**2,417**
Total Equities	**226,849**

Strategic Report: Investment Portfolio (continued)

Classification of investments by sector

	Total 31 December 2016 %	Total 31 December 2015 %
FIXED INTEREST		
Preference Shares	1.7	1.7
Other Fixed Interest	8.6	8.8
Total Fixed Interest	**10.3**	**10.5**
EQUITIES		
Oil & Gas		
Oil & Gas Producers	6.6	4.3
Total Oil & Gas	**6.6**	**4.3**
Basic Materials		
Chemicals	2.2	0.6
Mining	1.7	2.1
Total Basic Materials	**3.9**	**2.7**
Industrials		
Aerospace & Defence	1.4	1.4
Construction & Materials	0.9	1.0
General Industrials	1.0	0.8
Support Services	1.6	0.9
Total Industrials	**4.9**	**4.1**
Consumer Goods		
Beverages	3.0	2.8
Food Producers	3.4	3.3
Household Goods & Home Construction	2.4	3.4
Tobacco	6.5	6.4
Total Consumer Goods	**15.3**	**15.9**
Health Care		
Pharmaceuticals & Biotechnology	6.1	5.5
Total Health Care	**6.1**	**5.5**
Consumer Services		
Food & Drug Retailers	–	0.2
General Retailers	2.1	1.4
Media	8.3	8.3
Travel & Leisure	4.6	5.5
Total Consumer Services	**15.0**	**15.4**
Telecommunications		
Fixed Line Telecommunications	4.3	5.4
Mobile Telecommunications	3.2	4.3
Total Telecommunications	**7.5**	**9.7**
Utilities		
Electricity	1.1	1.5
Gas, Water & Multiutilities	4.9	6.6
Total Utilities	**6.0**	**8.1**
Financials		
Banks	6.7	4.6
Nonlife Insurance	1.5	1.3
Life Insurance	5.4	6.2
Real Estate Investment Trusts	2.3	2.1
Financial Services	3.9	4.5
Equity Investment Instruments	3.6	3.9
Total Financials	**23.4**	**22.6**
Technology		
Software & Computer Services	1.0	1.2
Total Technology	**1.0**	**1.2**
TOTAL INVESTMENTS	**100.0**	**100.0**

Distribution of the UK equity holdings at 31 December



	2016 %	2015 %
Large Companies	70	66
Medium-sized Companies	23	25
Small Companies	7	9

Strategic Report: Fund Manager's Report

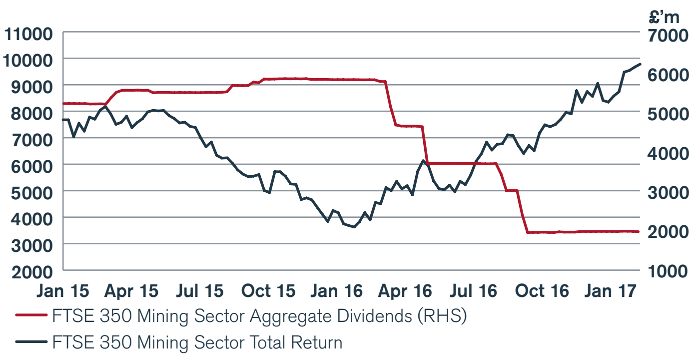
The Fund Manager of the portfolio, David Smith, reports on the year to 31 December 2016

Review of the year

There were two significant political events that impacted markets during the year; the UK's vote to leave the European Union and Donald Trump's surprise US Presidential election victory. Despite both events, the UK stock market was up strongly during the year with the FTSE All-Share returning 16.8%. Sterling weakness in the aftermath of the Brexit vote lead to the outperformance of large multinational companies within the FTSE 100, which pushed the index to all-time highs at the end of the year.

The market has taken the initial view that President Trump's proposed fiscal policy of increased infrastructure and defence spending and cuts to corporation tax will be good for economic growth and inflation. Although bond yields had started to rise from their historical lows in the summer, this accelerated in November causing a steepening of the yield curve globally and a sector rotation within equities. Defensives or so called 'bond proxies', for example utilities and consumer staples, came under pressure in favour of miners and financials.

Despite significant cuts to dividends the mining sector experienced a sharp rebound



Source: Datastream

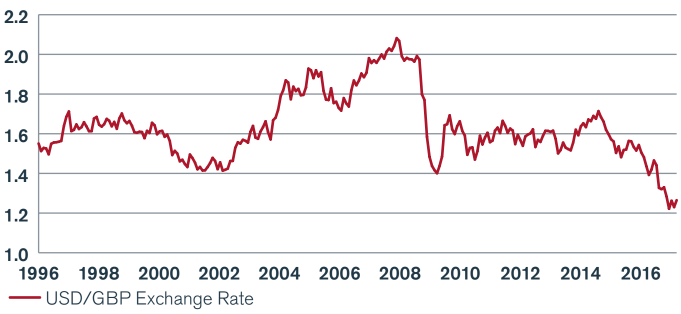
The downturn seen in commodity markets over the last few years ended, as better economic growth from China, and supply side reductions from listed resource companies led to a sharp recovery in prices. Furthermore, the Organization of the Petroleum Exporting Countries ('OPEC') and non-OPEC countries finally came to an agreement to cut oil production, which supported the oil price.

Although the Company made positive returns over the year, with a NAV total return (with debt at fair value) of 8.9%, this lagged the very strong performance of the benchmark, up 15.5%.

The equity portfolio rose 9.5% during the year which underperformed the strong return of the FTSE All-Share. The best performing sectors during 2016 were Mining and Oil & Gas. While the Company has some exposure to these sectors, via Rio Tinto, BP and Royal Dutch Shell, it did not have enough given the very strong performance from these types of companies. Low commodity prices had put pressure on dividend payments in these sectors which made it hard for the Company to be fully weighted. In fact the Mining sector in aggregate has now cut dividends by £3.3bn in the last two years. However, the sharp recovery in commodity prices over 2016 drove the Mining and Oil & Gas sectors to outperform strongly in capital terms thereby creating a headwind to the Company's relative performance.

The UK's decision to leave the EU had a significant impact on UK domestic companies during the year, as the market was quick to assume the economy would fall into recession. Although economic data has so far proved resilient, the sharp share price falls over the period from the Company's holdings in domestically exposed companies, such as ITV, Greene King and Galliford Try were detrimental to performance. Despite the uncertain outlook, the three companies delivered attractive dividend growth of 24%, 8% and 21% respectively.

Sterling at a 30 year low relative to the dollar



Source: Datastream

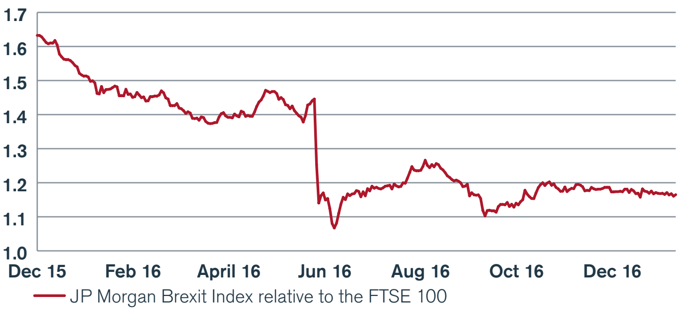
Strategic Report: Fund Manager's Report (continued)

Given the weakness in sterling, the Company's position in certain overseas holdings, such as US telecom Verizon Communications and European professional publisher RELX, aided performance. Elsewhere the Company's holding in De La Rue was also positive for performance with the company making good progress on its turnaround strategy.

The fixed income portfolio returned 13.8%, outperforming the 10.6% gain from the Merrill Lynch Sterling Non-Gilts Index. The portfolio's holdings in large, non-cyclical companies, such as cable company Virgin Media and the RAC, aided performance. As bond yields troughed in August, the portfolio's exposure to short dated high yield bonds proved less volatile than investment grade corporate bonds, which benefited performance.

The revenue per share return over the year was a good result at 9.93p per share, in line with last year (9.96p), given that some of the Company's holdings, BHP Billiton, Rio Tinto and Barclays, cut their dividends in the year. These cuts were offset by good underlying dividend growth from the rest of the portfolio and another robust year of special dividends from Intermediate Capital, ITV and Jupiter Fund Management. Some of the Company's largest holdings continued to deliver strong dividend growth with BT, Imperial Brands and Lloyds Banking Group all increasing their dividends by more than 10%. The Company raised its own full year dividend for the fourth year running to 9.15p, an increase of 2.8%. Given the uncertain outlook surrounding the UK's relationship with the EU post Brexit, the level of market dividend growth is likely to slow while the amount of special dividends is also likely to be lower. Despite this I remain confident in the revenue return for the forthcoming year. The portfolio is well diversified, focuses on good quality companies with strong balance sheets and has rebuilt its revenue reserves.

Domestically exposed sectors significantly underperformed due to Brexit

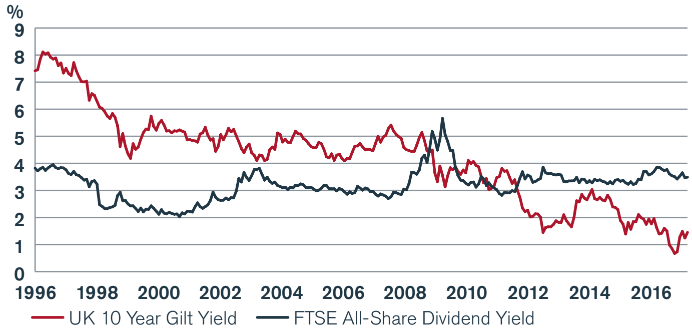


Source: Bloomberg, as at 7 February 2017. Relative performance of the JP Morgan Brexit Index versus the FTSE 100 Index. The JP Morgan Brexit Index is a basket of UK stocks that reflect Britain's exposure to the EU across multiple sectors.

Portfolio activity

Throughout 2016 the Company maintained its preference for equities over bonds with 90% of the investment portfolio in equities. The UK equity market outperformed both government and corporate bonds during the year and given the attractive yields on equities relative to bonds, this position has been maintained.

Despite bond yields rising, equities still offer a higher yield



Source: Datastream

In the equity portfolio new holdings in Whitbread and Pets at Home were initiated. Whitbread owns market leading brands Premier Inn and Costa Coffee, has a well-invested property estate and a robust balance sheet. The company is expanding the business both domestically and overseas which, together with other initiatives, should drive strong earnings and dividend growth. Pets at Home's retail division is a clear market leader that has proved resilient to previous downturns while the roll out and maturity of its services business (vets and groomers) should provide good long term earnings growth. Both companies had been weak due to Brexit and we used this as an opportunity to acquire holdings in two good quality businesses on attractive valuations.

Towards the end of the year the portfolio's exposure to the bank sector was increased through adding to the Lloyds Banking Group position. A new holding in European retail bank, ING, which has a strong capital position, good geographical diversification, solid asset quality and an attractive dividend yield, was also purchased. The management team has a good track record of growing net interest income despite low interest rates and has a clear plan to lower costs further and support margins. Elsewhere new holdings were established in specialty chemical company Johnson Matthey and European pharmaceutical company Roche, which is the world's leading oncology company with a strong pipeline of new drugs. Growth should accelerate in the next few years as recently approved drugs, treating breast cancer and leukaemia, commercialise while late stage pipeline assets focusing on immuno-oncology have the potential to increase substantially sales in the longer term.

Sales in the year included Marston's and Moneysupermarket.com. With pressure on household disposable income, increased cost inflation and a leveraged balance sheet, Marston's dividend may not be sustainable hence I sold the position. After a period of strong performance the holding in Moneysupermarket.com was sold. The valuation reached a level which fully reflected the company's growth prospects in an increasingly competitive industry. The overweight positions in National Grid and Legal & General were also lowered during the year, taking some profits after strong long term performance from both companies. A position has been maintained in each, given the dividend yields remain appealing.

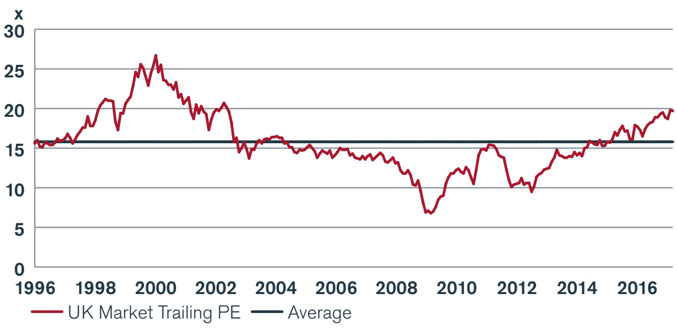
Strategic Report: Fund Manager's Report (continued)

Within the fixed income portfolio new positions were initiated in the global storage and information management company Iron Mountain and the RAC. The yield on the Iron Mountain corporate bonds reached an attractive level for a well-managed and stable cash generative business. RAC has a strong position in the consolidated UK breakdown recovery market, high barriers to entry and stable cash flow which can sustain the current capital structure. Given the new position in the RAC we participated in a tender offer by the AA; the company effectively bought back the bonds at a premium to the market price. We also trimmed our holding in the long dated Verizon bonds after spreads fell to a level where we felt there was better risk/reward elsewhere.

Outlook

Global economic growth is forecast to be solid in 2017 due to robust developed market economies and fading recessionary fears in several large Emerging Market countries. Further upside could be supported by a move from governments to fiscal stimulus, especially in the US, however political risk remains given President Trump's protectionist overtones and further elections across Europe.

Equity valuations are above their long term average



Source: Datastream

Thus far, the UK economy has remained resilient despite the vote to leave the EU, with confidence indicators recovering quickly to exceed pre-referendum levels. However, headwinds are growing as sterling weakness and a recovery in commodity prices are likely to push inflation above wage growth thereby putting pressure on household disposable income. Also with uncertainty surrounding the UK's access to the single market, corporate investment intentions are seemingly on hold. Despite higher inflation the Bank of England is likely to keep interest rates at historic lows until the impact of Brexit is better known.

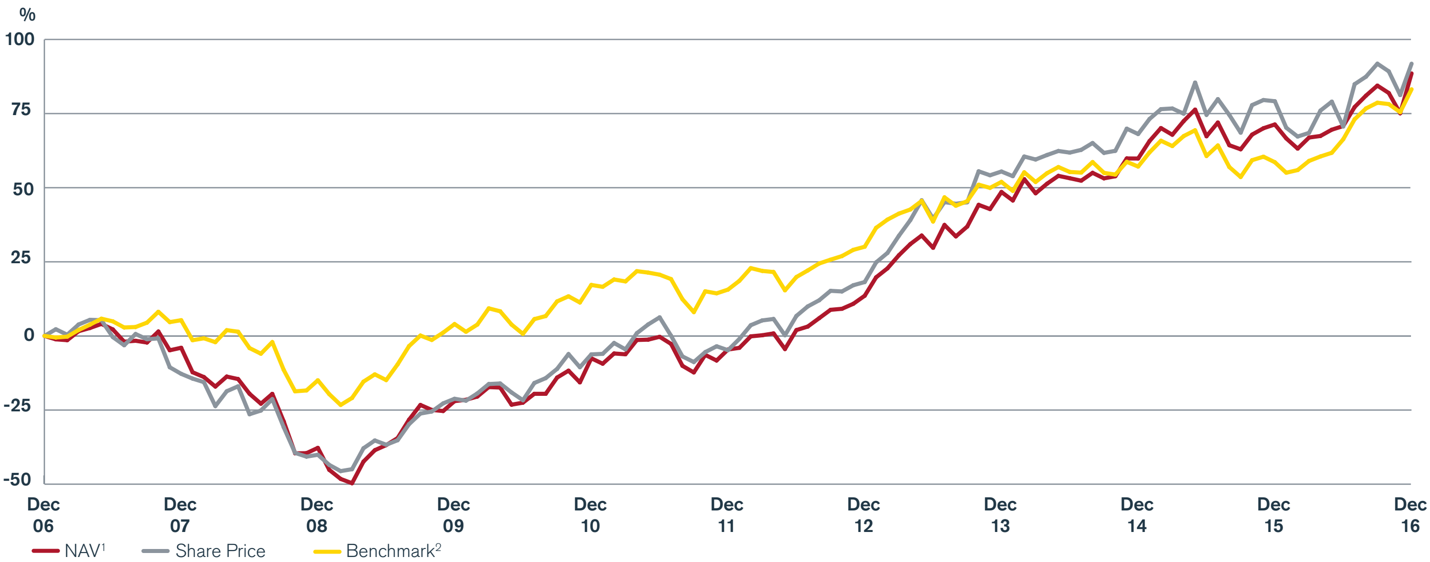
Although fears around growing protectionism and political tensions are hard to ignore, higher growth and inflation should be good for equities, at least in the short term. With approximately two thirds of the FTSE All-Share earnings derived overseas, the pound's depreciation along with a recovery in resources and banks' profitability should produce double-digit aggregate market earnings growth this year. This together with a starting dividend yield of over 3% for the UK market would give some reasonable upside to equities if growth comes through as forecast even with market valuations above their long term average. Markets are likely to remain volatile as sentiment fluctuates but I would expect to use any weakness as an opportunity to continue to find good quality companies that I believe can grow their dividends into the longer term.

Strategic Report: Historical Performance and Financial Information

Total return performance to 31 December

	1 year %	3 years %	5 years %	10 years %
NAV[1]	8.9	25.9	99.0	90.9
Share Price	7.1	23.4	101.4	91.5
Benchmark Index[2]	15.5	20.6	58.4	83.2
FTSE All-Share Index	16.8	19.3	61.8	71.8
Merrill Lynch Sterling Non-Gilts Index	10.6	25.1	42.9	80.9

Total return performance over 10 years to 31 December 2016



1 Net asset value total return (including dividends reinvested and excluding transaction costs) with debt at fair value
2 A composite of 80% of the FTSE All-Share Index (total return) and 20% of the Merrill Lynch Sterling Non-Gilts Index (total return) rebalanced annually

Financial information

31 December	Net assets £'000	NAV p	Mid-market price per ordinary share p	Dividends per ordinary share p
2007	142.6	166.9	147.8	8.18
2008	87.8	102.7	95.0	8.30
2009	100.8	117.7	114.5	8.30
2010	112.7	126.7	124.8	6.23[3]
2011	108.9	121.4	118.5	8.30
2012	132.8	137.3	138.3	8.30
2013	175.3	169.7	172.8	8.40
2014	189.0	173.6	177.9	8.60
2015	197.1	177.5	180.5	8.90
2016	**207.7**	**185.6**	**183.6**	**9.15**

3 Only three interim dividends were paid in respect of the year to 31 December 2010 as the fourth interim dividend was reclassified as the first interim dividend for the year to 31 December 2011 and paid in April 2011. However, the shareholders effectively received the same total dividend of 8.30p per share during 2010 as in the previous year

Sources: Henderson, Morningstar for the AIC, Datastream, Bloomberg and Morningstar Direct

Strategic Report: Directors' Biographies

Directors

The Directors appointed to the Board at the date of this Annual Report are:

Margaret Littlejohns

Position: Chairman of the Board and of the Nominations and Management Engagement Committees
Date of appointment: 1 July 2008 (Chairman on 3 May 2016)
In 2004 Margaret co-founded The Space Place, a self-storage business in the Midlands, and worked as its Finance Director until 2016 when she sold the company to a regional operator. Prior to this she held a variety of positions within Citigroup from 1982 to 2000, accumulating experience in both commercial and investment banking and developing expertise in derivatives and in credit and market risk management. She has also worked as an independent consultant in the commercial, charitable and academic sectors. She is currently a non-executive director of JPMorgan Mid Cap Investment Trust plc and a trustee of The Lymphoma Research Trust, a charity that funds research into the effective treatment of lymphatic cancers.

Andrew Bell

Position: Director
Date of appointment: 1 November 2004
Andrew has worked in the City since 1987, initially specialising in European equities as a strategist at Barclays de Zoete Wedd (BZW), following which he was Co-Head of the Investment Trusts team at Credit Suisse First Boston. From 2000 until 2010 he worked for Rensburg Sheppards as Head of Research, leaving in February 2010 to become a director and Chief Executive Officer of Witan Investment Trust plc. He was the Chairman of the Association of Investment Companies from January 2013 until January 2015. Since February 2015 he has been Chairman of Gabelli Value Plus+ Trust plc. Prior to the City, he worked for Shell in Oman, leaving to take a Sloan Fellowship at the London Business School.

Anthony Newhouse

Position: Director
Date of appointment: 1 July 2008
Anthony is a solicitor who was a partner in Slaughter and May until 2008. He began his career in the City in banking and joined Slaughter and May in 1976, where he became a partner in 1984. He had a wide-based domestic and international corporate finance practice, advising many UK listed and other corporate entities. He has subsequently been a member of the PwC advisory board, a visiting professor at the London Metropolitan University Business School and is currently an honorary treasurer of the Royal Philharmonic Society.

Janet Walker

Position: Director and Chairman of the Audit Committee
Date of appointment: 1 June 2007 (Chairman of the Audit Committee on 1 October 2008)
Since the beginning of 2011 Janet has been the Bursar of Eton College. She was formerly the Commercial & Finance Director of Ascot Racecourse and a non-executive director of the Design Council, Royal Holloway College and the British Academy of Film and Television Arts (BAFTA). From 1980 until 2003 Janet was employed in broadcasting, including roles as Director of Finance and Business Affairs at Channel Four Television from 1998 to 2003, Director of Finance at Granada Media Group from 1996 to 1998, Financial Controller, Regional Broadcasting for the BBC from 1994 to 1996 and Deputy Director of Finance and Corporation Secretary at Channel Four Television from 1988 to 1994.

Zoe King

Position: Director
Date of appointment: 1 April 2016
Zoe has been a director of Smith & Williamson Investment Management Limited for over ten years, specialising in the management of private client portfolios. She also acts as an independent adviser to a number of charities. She was formerly a Vice President at Merrill Lynch Mercury Asset Management and a Fund Manager at Foreign & Colonial Investment Management, having graduated from Oxford University in 1994.

All Directors are independent of Henderson and are members of the Nominations, Management Engagement and Audit Committees.

Vivian Bazalgette and Hugh Twiss retired as Directors on 3 May 2016.

Strategic Report: Corporate Information

Registered office

201 Bishopsgate
London
EC2M 3AE

Service providers

Alternative Investment Fund Manager

Henderson Investment Funds Limited
201 Bishopsgate
London
EC2M 3AE

Depositary and Custodian

HSBC Bank plc
8 Canada Square
London
E14 5HQ

Stockbrokers

JPMorgan Cazenove Limited
25 Bank Street
London
E14 5JP

Corporate Secretary

Henderson Secretarial Services Limited
201 Bishopsgate
London
EC2M 3AE
Telephone: 020 7818 1818

Registrar

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol
BS99 6ZZ

Telephone: 0370 707 1039
Email: web.queries@computershare.co.uk

Investors with share certificates (i.e. not those in a share plan or ISA) can check their holdings at **www.computershare.com**.

Independent Auditor

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

Financial calendar

First interim dividend payable	28 April 2017
Annual General Meeting[1]	9 May 2017
Second interim dividend payable	28 July 2017
Half year results	announced August 2017
Third interim dividend payable	27 October 2017
Fourth interim dividend payable	26 January 2018

1 At the Company's registered office at 12 noon

Information sources

For more information about the Company, visit the website at **www.hendersonhighincome.com**.

HGi

HGi is a content platform provided by Henderson that offers online personalisation where you can 'follow' investment experts, topics and the trusts that are of interest to you. By creating your HGi profile you will be updated regularly on the topics that interest you most, bringing you closer to Henderson's investment expertise.

Scan the QR code or use this short URL to register for HGi: http://HGi.co/rb

Follow us on Twitter, YouTube and Facebook

For alternative access to Henderson's insight you can now follow us on Twitter, YouTube and Facebook.

Investing

Shares can be purchased in the market via a stockbroker or through share dealing platforms. They can also be held through share plans, ISAs or pensions and links to various providers are included on the website. Individuals holding shares through Halifax Share Dealing Limited can write to them at Lovell Park Road, Leeds LS1 1NS or contact them via telephone 03457 225 525, email **Henderson@halifax.co.uk** or visit their website **www.halifax.co.uk/sharedealing**.

Potential investors are reminded that the value of investments and the income from them may go down as well as up and investors may not receive back the full amount invested. Tax benefits may vary as a result of statutory changes and their value will depend on individual circumstances.

Nominee share code

Where notification has been provided in advance, the Company will arrange for copies of shareholder communications to be provided to the operators of nominee accounts. Nominee investors may attend general meetings and speak at them when invited to do so by the Chairman. Investors via Halifax Share Dealing Limited receive all shareholder communications. A voting instruction form is provided to facilitate voting at general meetings of the Company.

Strategic Report: Corporate Information (continued)

Status

The Company is an investment company as defined in Section 833 of the Companies Act 2006 (the 'Act'), operates as an investment trust in accordance with Section 1158 of the Corporation Tax Act 2010 ('Section 1158'), is subject to the Listing Rules of the Financial Conduct Authority and is governed by its Articles of Association, amendments to which must be approved by shareholders by way of a special resolution. The Company is not a close company.

The Company has obtained approval from HMRC of its status as an investment trust under Section 1158. The Directors are of the opinion that the Company has conducted its affairs in compliance with Section 1158 since approval was granted and intends to continue to do so. The Company is liable to corporation tax on its net revenue profits but is exempt from corporation tax on capital gains if it has complied at all times with Section 1158.

Principal risks and uncertainties

The Board, with the assistance of Henderson, has carried out a robust assessment of the principal risks facing the Company including those that would threaten its business model, future performance, solvency or liquidity. In carrying out this assessment, the Board has considered the market uncertainty arising from the result of the UK referendum to leave the European Union and the US Presidential election. The Board has drawn up a matrix of risks facing the Company and has put in place a schedule of investment limits and restrictions, appropriate to the Company's investment objectives and policy, in order to mitigate these risks as far as practicable. The principal risks which have been identified, and the steps taken by the Board to mitigate these as far as practicable, are as follows:

Principal Risks	Mitigation
Investment Risk Risk of long term underperformance of the Company against the benchmark and/or peer group. This could result in the shares of the Company trading at a discount and reduced liquidity in the Company's shares.	Henderson provides the Directors with regular investment management information including investment performance statistics against the benchmark and the peer group. The implementation of investment strategy and results of the investment process for which the Fund Manager is responsible are discussed with Henderson and reviewed at each Board meeting. The premium/discount and the trading volume of the Company's shares are also regularly reviewed, taking account of market conditions. The Directors maintain close contact with the Company's brokers to understand and regulate the supply and demand of shares.
Market/Financial Risk Risk that market conditions lead to a fall in the value of the portfolio (magnified by any gearing) and/or a reduction of income. This could result in loss of capital value for shareholders and/or a cut in the dividend payment.	The Directors review the portfolio regularly. The portfolio is diverse, containing a sufficient range of investments to ensure that no single investment puts undue risk on the sustainability of the income generated by the portfolio or indeed the capital value. Regard is also given to having a broad mix of companies in the portfolio, as well as a spread across a range of economic sectors. Henderson operates within investment limits and restrictions set by the Board, including limits for gearing and derivatives. A monthly schedule of current positions against all established limits is reviewed by the Directors and Henderson confirms adherence to them each month. Any particularly high risks are highlighted and discussed. A detailed analysis of all financial risks for the Company can be found in note 14 of the Annual Report. The Directors review the income statement and income forecasts at each Board meeting and monitor the Company's revenue reserves.

Strategic Report: Corporate Information (continued)

Principal Risks	Mitigation
Operational Risk Risk of losses through inadequate or failed internal processes, systems, human error or external events. This includes the risk of loss arising from failing to manage key outsourced service providers properly, and the risk arising from major disruptions to their businesses and their markets.	Control systems of Henderson are designed and tested to ensure that operational risks are mitigated to an acceptable level. Business continuity plans are maintained and tested to ensure that, in the event of business disruption, operations can be maintained. Henderson has introduced cyber security measures to protect against attacks. Agreements are in place with all other key service providers and their controls are monitored by Henderson's assurance functions. The Directors receive a quarterly internal controls report from Henderson to assist with the ongoing review of risks and control procedures used to manage those risks. More details on internal control and risk management can be found in the Corporate Governance Statement in the Annual Report.
Legal and Regulatory Risk Risk that a breach of or a change in laws and regulations could materially affect the viability and appeal of the Company, in particular Section 1158 which exempts capital gains from being taxed within investment trusts.	The Company's legal and regulatory obligations are delegated to Henderson Secretarial Services Limited and are monitored by Henderson's Compliance and Audit functions. Henderson regularly reviews and confirms compliance with Section 1158 to protect the Company's status as an investment trust. Henderson actively and constructively engages with regulators, tax and industry bodies in order to understand and influence future developments. The Directors receive a quarterly internal controls report from Henderson which confirms regulatory compliance.

The Board considers these risks to have remained unchanged throughout the year under review.

Viability statement

The Company is a long term investor. The Board believes it is appropriate to assess the Company's viability over a five year period in recognition of our long term horizon and what we believe to be investors' time horizons, taking account of the Company's current position and the potential impact of the principal risks and uncertainties as documented in this Strategic Report.

The assessment has considered the impact and the likelihood of the principal risks and uncertainties facing the Company in severe but reasonable scenarios, and the effectiveness of any mitigating controls in place. The Directors consider this to be an appropriate period over which they do not expect there to be any significant change in the current principal risks and adequacy of the mitigating controls in place. Also the Directors do not envisage any change in strategy or objectives or any events that would prevent the Company from continuing to operate over that period.

The Directors have also taken into account the liquidity of the portfolio, the income stream from the portfolio and the Company's ability to meet liabilities as they fall due. This included consideration of how the forecast income stream, expenditure and levels of reserves could impact on the Company's ability to pay dividends to shareholders over that period in line with its dividend policy. Whilst detailed forecasts are only made over a shorter timeframe, the nature of the Company's business as an investment trust means that such forecasts are equally valid to be considered over the longer five year period as a means of assessing whether the Company can continue in operation.

The Directors recognise that there is a continuation vote due to take place at the Annual General Meeting following the 31 December 2019 year end. The Directors support the continuation of the Company and expect that the Company will continue to exist for the foreseeable future, at least for the period of the assessment.
The Directors do not envisage any change in strategy or objectives or any events that would prevent the Company from continuing to operate over that period as the Company's assets are liquid, its commitments are limited and the Company intends to continue to operate as an investment trust. Based on this assessment the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the next five year period.

Borrowing

At 31 December 2016 the Company had a committed loan facility with Scotiabank of £30m which allows it to borrow as and when appropriate. The facility expires on 30 June 2018. The Company also has a £20m fixed rate 19 year senior unsecured note with a sterling coupon rate of 3.67%. Gearing as at 31 December 2016 was 21.8% (2015: 22.7%).

Strategic Report: Corporate Information (continued)

Future developments

While the future performance of the Company is mainly dependent on the performance of UK and international financial markets which are subject to various external factors, the Board's intention is that the Company will continue to pursue its stated investment objective and investment strategy explained on page 4. Shareholders are asked to vote on the continuation of the Company at every fifth Annual General Meeting in accordance with the Articles of Association. This was last approved at the Company's 2015 Annual General Meeting.

Key performance indicators

In order to measure the success of the Company in meeting its objective and to evaluate the performance of Henderson, the Directors take into account the following key performance indicators ('KPIs'):

KPI	Action
Dividend policy	The Board places a high level of importance on maintaining the Company's dividend payments. The aim is to maintain a suitable asset allocation that will permit a sustainable high level of dividend distributions to shareholders with the potential to grow in the longer term. The Board reviews the Company's revenue account at every Board meeting, along with the appropriateness of its dividend payments. The Board also compares the yield on the Company's shares to other relevant sectors of the Association of Investment Companies ('AIC'). Shareholders must, however, recognise that dividend payments can never be guaranteed, and that circumstances could arise when it would be necessary to reduce or pass a dividend payment. The Board may from time to time decide to utilise some of the Company's reserves for dividends. Equally, there may be instances when the level of payment must be increased in order to comply with Section 1158 which requires an investment trust not to retain more than 15% of its total income. Where such instances would result in a payment going beyond the Board's policy, one-off 'special dividend' payments could be declared and paid.
Performance of the portfolio	At each Board meeting, the Board reviews the performance of the portfolio as well as the NAV per share (with debt at par value) and share price of the Company. The Board also compares the performance of the Company against the benchmark. The Board has determined that this measure be used to calculate whether a performance fee is payable to Henderson. Further details of the fee arrangements with Henderson are given on page 4.
Premium/discount to net asset value ('NAV')	At each Board meeting, the Board monitors the level of the Company's premium or discount to NAV per share and reviews the average premium or discount for the AIC UK Equity and Bond Income sector. The Company publishes two NAVs per share, one with debt at par and the other with debt at fair value on a daily basis through the official newswire of the London Stock Exchange. These figures are calculated in accordance with the AIC formula.
Ongoing charge	The Board regularly reviews the ongoing charge and monitors all Company expenses. For the year ended 31 December 2016 the ongoing charge (excluding performance fee) was 0.81% (2015: 0.79% excluding the performance fee and 1.42% including the performance fee). There was no performance fee payable this year.

Strategic Report: Corporate Information (continued)

Corporate responsibility

Responsible investment

Henderson is responsible for reporting on its work on corporate governance and corporate responsibility (or social, environmental and ethical ("SEE") issues) in the companies in which it invests on its clients' behalf, across all funds as part of its management duties. In May 2005 Henderson became a founding signatory to the United Nations Principles for Responsible Investment. The Principles, developed under the auspices of the UN Secretary-General, are a voluntary and aspirational framework for incorporating environmental, social and corporate governance ("ESG") issues into mainstream investment decision-making and ownership practices.

The way companies respond to sustainability and corporate responsibility can affect their business performance, both directly and indirectly. An investee company's policy on social responsibility and the environment is considered by Henderson's risk team but investments are not ruled out on social and environmental grounds only.

Voting policy and the UK stewardship code

Henderson's responsible investment policy sets out its approach to corporate governance and corporate responsibility for all the companies in which it invests on behalf of its clients and its policy on proxy voting. The policy also sets out how Henderson implements the UK Stewardship Code. The Board has reviewed the policy and has delegated responsibility for voting to Henderson accordingly. The Board receives an annual report on the voting undertaken by Henderson on behalf of the Company. The Board and Henderson believe that voting at general meetings is an important aspect of corporate stewardship and a means of signalling shareholder views on board policy, practices and performance. Voting recommendations are guided by the best interests of the investee companies' shareholders. Depending on the nature of the resolution the Fund Manager will give specific instructions on voting non-routine and unusual or controversial resolutions. Decisions not to support resolutions and the rationale for doing so are fed back to the investee company prior to voting.

Practical difficulties may prevent Henderson voting in some markets. In particular, various factors, including restrictions on dealing and costs, may inhibit voting in some international markets and must be taken into account.

The Henderson responsible investment policy and further details of Henderson's responsible investment activities can be found on the Henderson website, **www.henderson.com**.

Employees, social, community, human rights and environmental matters

The Company's core activities are undertaken by Henderson, which has implemented environmental management practices, including systems to limit the use of non-renewable resources and to minimise the impact of operations on the environment, and is focused on reducing greenhouse gas emissions and minimising waste, where possible. The Company has therefore not reported on these, or social, community or human rights issues here; Henderson's policies are included in its Annual Report which can be found on the website **www.henderson.com**.

Henderson's corporate responsibility statement is included on the website stated above. In 2012 it was granted CarbonNeutral Company status which it has committed to maintain at least until the end of 2018.

The Company's Annual Report is printed on paper produced using 50% recycled post-consumer waste and 50% wood fibre from fully sustainable forests with certification by the Forest Stewardship Council; the printing company used is certified as CarbonNeutral®.

Bribery Act 2010

The Board has reviewed the implications of the Bribery Act 2010, which came into force on 1 July 2011, and confirmed its zero tolerance to bribery and corruption in its business activities. It has received assurances from the Company's main contractors and suppliers that they will maintain adequate safeguards to protect against any potentially illegal behaviour by their employees and agents.

Modern Slavery Act 2015

As an investment vehicle the Company does not provide goods or services in the normal course of business, and does not have customers. Accordingly, the Directors consider that the Company is not required to make any slavery or human trafficking statement under the Modern Slavery Act 2015.

Board diversity

Of the current Directors, three are female and two are male. The Directors consider diversity when making appointments to the Board, taking into account relevant skills, experience, knowledge and gender. The Company has no employees and, therefore, there is nothing further to report in respect of diversity within the Company.

For and on behalf of the Board

Margaret Littlejohns
Chairman
28 March 2017

Strategic Report: Glossary

Alternative Investment Fund Managers Directive ('AIFMD')

Issued by the European Parliament and written into UK legislation, the AIFMD classifies certain investment vehicles, including investment companies, as Alternative Investment Funds ('AIFs') and requires them to appoint an Alternative Investment Fund Manager ('AIFM'). As the Company's AIFM is based in the European Union ('EU') and as the Company intends to market itself in the EU, a depositary must be appointed to carry out the duties of cash flow monitoring, safe keeping of assets and oversight. The Board retains responsibility for strategy, operations and compliance.

Association of Investment Companies ('AIC')

The Company is a member of the AIC which is the trade body for investment companies and represents the industry in relation to various matters which impact the regulation of such entities.

Benchmark

An index against which performance is compared. For the Company this is a composite of 80% of the FTSE All-Share Index (total return) and 20% of the Merrill Lynch Sterling Non-Gilts Index (total return) and is rebalanced annually.

Capital return per share

The capital return per share is the capital return for the year divided by the weighted average number of ordinary shares in issue during the year.

Custodian

The custodian is responsible for ensuring the safe custody of the Company's assets and that all transactions in the underlying holdings are carried out in an accurate and timely manner.

Depositary

With effect from 22 July 2014 all AIFs were required to appoint a depositary which has responsibility for overseeing the operations of the Company including safekeeping, cash monitoring and verification of ownership and valuation of the underlying holdings and is responsible for the appointment of a custodian. The depositary is strictly liable for the loss of any investments or other assets in its custody unless it has notified the Company that it has discharged its liability in certain markets. The depositary has confirmed that it has not discharged liability in relation to any of the Company's assets.

Derivative

A contract between two or more parties in relation to an underlying security. The value of a derivative will fluctuate in accordance with the value of the security and is a form of gearing as the fluctuations in value are usually greater than the fluctuations in the underlying security's value. Examples of derivatives are put and call options, swap contracts, futures and contracts for difference. Foreign exchange, interest rates and commodities may also be traded using derivative contracts.

Dividend dates

When declared or recommended, each dividend will have three key dates applied to it. The payment date is the date on which shareholders will receive their dividend, either by BACS transfer or by receipt of a dividend cheque. The record date applied to the dividend is used as a cut-off for the Company's Registrars to establish which shareholders should be paid a dividend. Only shareholders on the register of members at the close of business on the record date will receive the dividend. The ex-dividend date is the business day before the record date and is the date upon which the Company's net asset value will be disclosed ex-dividend.

Gearing

The gearing percentage reflects the amount of borrowings (i.e. bank loans, overdrafts or long term debt) the Company has used to invest in the market and also takes into account the exposure to hedging and derivatives which have a gearing effect. This figure indicates the extra amount by which total equity would move if the Company's investments were to rise or fall. This is calculated by taking the difference between investments and total equity, dividing it by total equity and multiplying it by 100 to express it as a percentage. Net gearing offsets any cash amounts against the amount of borrowings.

Investment trusts

Investment trusts are public limited companies, listed on the London Stock Exchange, which provide shareholders with a professionally managed portfolio of investments. Investment trusts are exempt from tax on the capital gains arising on their investments subject to meeting certain criteria. Income, net of expenses and tax, is substantially distributed to shareholders. Investment trusts are also known as investment companies, although the tax legislation retains the reference to investment trusts.

Liquidity

In the context of the liquidity of shares in the stock market, this refers to the availability of buyers in the market for the share in question. Where the market in a particular share is described as liquid, that share will be in demand and holders wishing to sell their shares should find ready buyers. Conversely, where the market in a share is illiquid the difficulty of finding a buyer will tend to depress the price that might be negotiated for a sale.

Market capitalisation ('market cap')

The market value of a company, calculated by multiplying the mid-market price per share by the number of shares in issue.

Strategic Report: Glossary (continued)

Net asset value ('NAV') per ordinary share

The value of the Company's assets (i.e. investments and cash held) less any liabilities (i.e. bank borrowings and debt securities) for which the Company is responsible, divided by the number of shares in issue. The aggregate NAV is also referred to as shareholders' funds on the statement of financial position. The Company currently publishes two NAVs, one with debt at par and the other with debt at fair value. Both are published daily.

Ongoing charge

The ongoing charge reflects those expenses of a type which are likely to recur in the foreseeable future, whether charged to capital or revenue, and which relate to the operation of the Company as a collective fund, excluding the costs of acquisition or disposal of investments, financing costs and gains or losses arising on investments. The ongoing charge is based on actual costs incurred in the year as being the best estimate of future costs, excluding any performance fees, in accordance with the AIC methodology prescribed by the AIC and is the annualised ongoing charge expressed as a percentage of the average aggregate NAV in the period.

Premium/discount

The amount by which the market price per share of an investment company is either higher (premium) or lower (discount) than the NAV per share, expressed as a percentage of the NAV per share.

Revenue return per share

The revenue return per share is the revenue return for the year divided by the weighted average number of ordinary shares in issue during the year.

Total return performance

This is the return on the share price or NAV per share taking into account both the rise and fall of share prices and the dividends and interest paid to shareholders during a given period. Any dividends received by a shareholder are assumed to have been reinvested in either additional shares (for share price total return) or the Company's assets (for NAV per share total return).

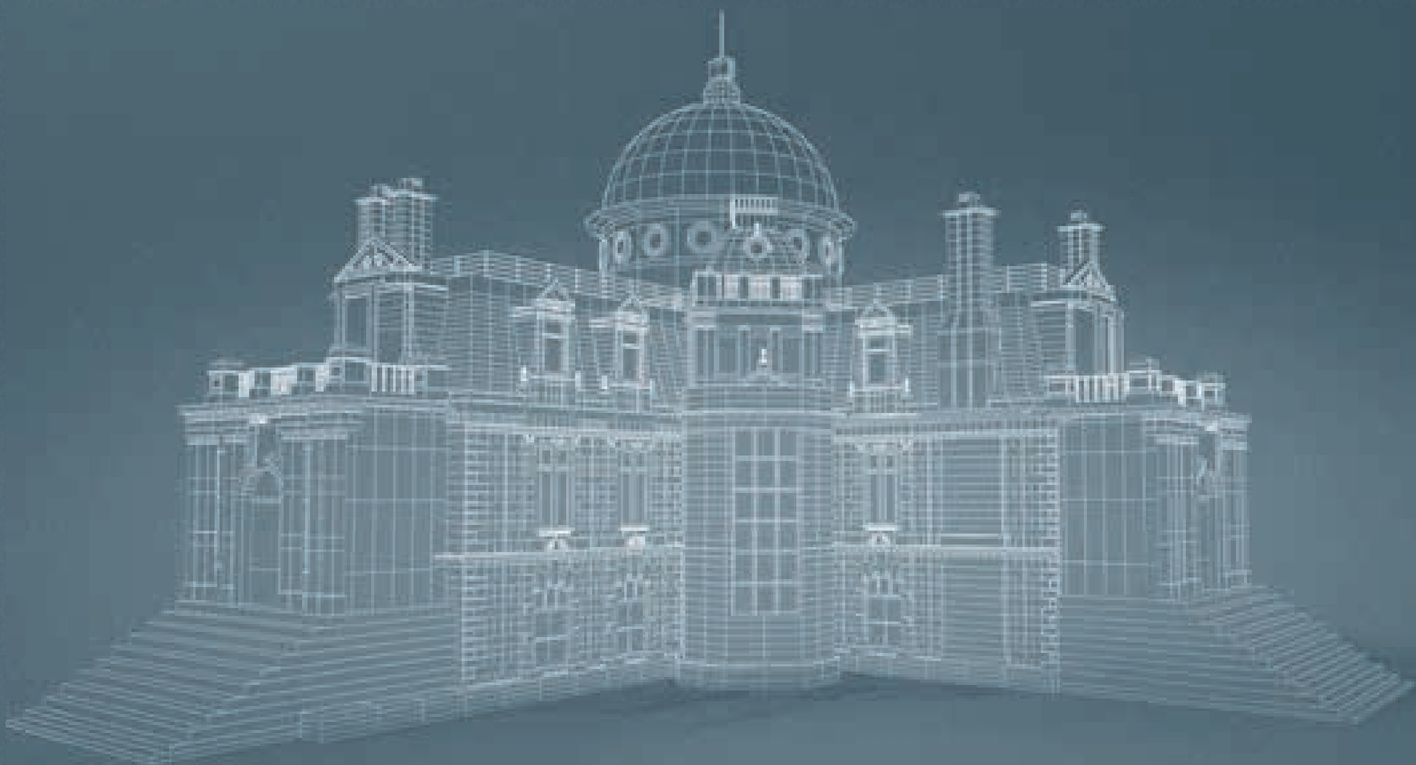
Treasury shares

Shares repurchased by the Company but not cancelled.

Yield

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

Corporate Report



Report of the Directors

The Directors present the audited financial statements of the Company and their Directors' Report for the year from 1 January 2016 to 31 December 2016. The Company (registered in England & Wales on 21 March 1997 with company registration number 02422514) was active throughout the year under review and was not dormant.

Directors' remuneration and shareholdings

The Directors' Remuneration Report on pages 27 and 28 provides information on the remuneration and share interests of the Directors.

Directors' conflicts of interest

The Company's Articles of Association permit the Board to consider and, if it sees fit, to authorise situations where a Director has an interest that conflicts, or may possibly conflict, with the interests of the Company ('situational conflicts'). The Board has a formal system in place for Directors to declare situational conflicts which are considered for authorisation by non-conflicted Directors. In deciding whether to authorise a situational conflict, the non-conflicted Directors must act honestly and in good faith with a view to the best interests of the Company. They may impose limits or conditions when giving the authorisation, or subsequently, if they think this is appropriate. Any situational conflicts considered, and any authorisations given, are recorded in the minutes of the relevant meeting. The prescribed procedures have been followed in deciding whether, and on what terms, to authorise situational conflicts and the Board believes that the systems it has in place for reporting and considering situational conflicts continue to operate effectively.

Related party transactions

The Company's transactions with related parties in the year were with the Directors and Henderson. There have been no material transactions between the Company and its Directors during the year. The only amounts paid to the Directors were in respect of remuneration for which there were no outstanding amounts payable at the year end. In relation to the provision of services by Henderson, other than fees payable by the Company in the ordinary course of business and the provision of sales and marketing services, there have been no material transactions with Henderson affecting the financial position of the Company during the year under review. More details on transactions with Henderson, including amounts outstanding at the year end, are given in note 19 on page 58.

Share capital

The Company's share capital comprises ordinary shares of 5p nominal value. The voting rights of the ordinary shares on a poll are one vote for every share held. There are no restrictions on the transfer of the Company's ordinary shares and there are no shares that carry specific rights with regards to control of the Company.

At the beginning of the year, there were 111,067,365 ordinary shares in issue. During the year, the Company issued 875,000 new ordinary shares (representing 0.8% of the number of shares in issue at the beginning of the year) to J.P. Morgan Cazenove (the Company's broker) at a price range of 176.75p to 188.75p for total proceeds (net of commissions) of £1,601,000. As at 31 December 2016 the Company's share capital consisted of 111,942,365 ordinary shares. Since 1 January 2017 and up to 28 March 2017, no further ordinary shares have been issued. The number of shares in issue as at 28 March 2017 was 111,942,365.

Subject to annual shareholder approval, the Company may purchase its own shares at a discount to net asset value per share. At the Annual General Meeting in May 2016 shareholders gave the Board authority to buy back 16,678,978 ordinary shares during the following 15 months for cancellation. To date this authority has not been used.

Holdings in the Company's shares

There were no declarations of interests in the voting rights of the Company as at 31 December 2016 in accordance with the Disclosure Guidance and Transparency Rules.

No other changes have been notified in the period from 1 January 2017 to 28 March 2017.

At 31 December 2016, 9.68% of the issued ordinary shares were held on behalf of participants in Halifax Share Dealing products administered by Halifax Share Dealing Limited. The participants in this scheme are given the opportunity to instruct the relevant nominee company to exercise the voting rights appertaining to their shares in respect of all general meetings of the Company.

Annual General Meeting

The Annual General Meeting will be held on Tuesday 9 May 2017 at 12 noon at the Company's registered office. The notice and details of the resolutions to be put to the Annual General Meeting are contained in the separate document being sent to shareholders with this Annual Report.

Corporate governance

The Corporate Governance Statement on pages 29 to 32 forms part of the Report of the Directors.

Directors' statement as to disclosure of information to the Auditor

Each Director who was a member of the Board at the date of approval of this Annual Report confirms that to the best of his or her knowledge and belief, there is no information relevant to the preparation of the Annual Report of which the Company's Auditor is unaware and that he or she has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's Auditor is aware of that information.

Global greenhouse gas emissions

As an externally managed investment company, the Company has no greenhouse gas emissions to report from its operations for the year to 31 December 2016 (2015: same), nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

Report of the Directors (continued)

Other information

Information on future developments and financial risks are detailed in the Strategic Report on pages 17 to 19.

Listing Rule 9.8.4

Listing Rule 9.8.4 requires the Company to include certain information in a single identifiable section of the Annual Report or a cross reference table indicating where the information is set out. The Directors confirm that there are no disclosures to be made in this regard other than in accordance with Listing Rule 9.8.4(7). These are disclosed on page 24 in the share capital section.

Subsequent events

Since the year end, the Board declared a first interim dividend of 2.325p per ordinary share in respect of the year ending 31 December 2017.

On 17 March 2017, the Company announced that Threadneedle UK Select Trust Limited ('UKT') had selected the Company as the roll-over option for their shareholders under a scheme of reconstruction of UKT. The Company also intends to put in place a prospectus for a 12 month share issuance programme.

Further details can be found in the Chairman's Statement on pages 5 and 6 and in note 21 on page 58.

By order of the Board

Henderson Secretarial Services Limited
Corporate Secretary
28 March 2017

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102, the financial reporting standard applicable in the United Kingdom and Republic of Ireland, and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the net return or loss of the Company for that year. In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in August 2013 and the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors consider that the Annual Report and financial statements taken as a whole, are fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Statement under DTR 4.1.12

Each of the Directors, who are listed on page 15, confirms that, to the best of his or her knowledge:

- the financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards comprising FRS 102 and applicable law) give a true and fair view of the assets, liabilities, financial position and net return of the Company; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

For and on behalf of the Board

Margaret Littlejohns
Chairman
28 March 2017

The Annual Report and financial statements are published on **www.hendersonhighincome.com** which is a website maintained by Henderson.

The maintenance and integrity of the website is the responsibility of Henderson; the work carried out by the Auditor does not involve consideration of these matters and, accordingly, the Auditor accepts no responsibility for any changes that may have occurred to the Annual Report since it was initially presented on the website.

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

Directors' Remuneration Report

Introduction

This report is submitted in accordance with Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in August 2013 (the 'Regulations'). The report also meets the relevant requirements of the Companies Act 2006 (the 'Act') and the Listing Rules of the Financial Conduct Authority and describes how the Board has applied the principles relating to Directors' remuneration. As required by section 439 of the Act, an ordinary resolution to approve the report will be proposed at the Annual General Meeting to be held on Tuesday 9 May 2017. The Company's remuneration policy will be put to shareholders for approval by ordinary resolution at the Annual General Meeting. The Company's remuneration policy was last approved by shareholders at the Annual General Meeting in 2014 in accordance with section 439A of the Act.

The Company's Auditor is required to report on certain information contained within this report; where information set out below has been audited it is indicated as such.

All Directors are non-executive and the Company has no chief executive officer or employees; as such some of the reporting requirements contained in the Regulations are not applicable and have not been reported on, including the requirement for a future policy table and an illustrative representation of the level of remuneration that could be received by each individual Director. It is believed that all relevant information is disclosed within this report in an appropriate format.

The Board has not been provided with advice or services by any person in respect of its consideration of the Directors' remuneration (although the Directors review annually the published fees paid to the boards of directors of other comparable investment trust companies).

Remuneration policy

Directors are remunerated in the form of fees, payable quarterly in arrears to the Directors personally. In accordance with the Company's Articles of Association the aggregate remuneration of the Directors may not exceed £250,000 per annum. Subject to this overall limit, the Board's policy is that remuneration should reflect the time spent on the Company's affairs and the responsibilities borne by the Directors. They should be comparable to that of other investment trusts of a similar size and with a similar capital structure and investment objective and should be of a sufficient level to promote the long term success of the Company. All Directors, including any new appointments to the Board, are paid at the same rate, apart from the Chairman of the Board and the Chairman of the Audit Committee, who are paid a higher fee in recognition of their additional responsibilities. From time to time the Board may approve one-off payments to Directors for specific work undertaken in addition to their regular responsibilities. The level of remuneration paid to each Director is reviewed annually, although such review will not necessarily result in any change to the rate. Any feedback from shareholders would be taken into account when setting remuneration levels. Directors are authorised to claim reasonable expenses from the Company in relation to the performance of their duties.

No Director is eligible to receive bonuses, pension benefits, share options or other benefits and no long term incentive schemes are in place.

No Director has a service contract with the Company. Directors' appointments may be terminated at any time by written notice with no compensation payable for loss of office. There are no set notice periods.

This remuneration policy has been in place since 1 January 2013 and was approved by shareholders at the Annual General Meeting in May 2014 and will be due for renewal at the Annual General Meeting in May 2017. The Board may amend the level of remuneration paid to individual Directors within the parameters of the remuneration policy.

Annual statement

As Chairman of the Board, Margaret Littlejohns, reports that Directors' fees were increased by 2.2% on 1 July 2016. This increase was made after consideration of the fees paid to other investment trusts in the sector of an equivalent size, as well as taking account of available independent research from Trust Associates into fees. These increases were to ensure that the Directors are properly remunerated for their services to the Company and so that the Company can remain competitive when seeking new Directors. There have been no other major decisions on Directors' remuneration or any other changes to the remuneration paid to each individual Director in the year under review. Decisions on remuneration and the remuneration policy are made by the Board. A separate Remuneration Committee has not been established.

Directors' interests in shares (audited)

The Company has not set any requirements, qualification or guidelines for Directors to own shares in the Company. The interests of the Directors in the ordinary shares of the Company at the beginning and end of the financial year are shown in the table below.

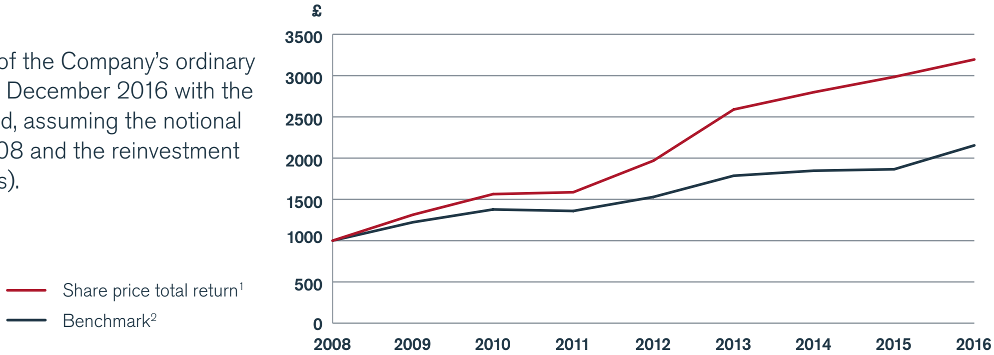
	Ordinary shares of 5p	
	31 December 2016	31 December 2015
Beneficial:		
Margaret Littlejohns	20,000	14,000
Andrew Bell	30,000	30,000
Zoe King[1]	9,000	–
Anthony Newhouse	20,000	20,000
Janet Walker	6,000	6,000
Vivian Bazalgette[2]	n/a	10,000
Hugh Twiss[2]	n/a	43,941

1 Appointed on 1 April 2016
2 Retired on 3 May 2016

Directors' Remuneration Report (continued)

Performance

The graph compares the mid-market price of the Company's ordinary shares over the eight year period ended 31 December 2016 with the Company's benchmark over the same period, assuming the notional investment of £1,000 on 31 December 2008 and the reinvestment of all dividends (excluding dealing expenses).



1 The share price total return is sourced from the AIC except the 2008 and 2009 returns which are from Morningstar

2 The benchmark is a composite of 80% of the FTSE All-Share Index and 20% of the Merrill Lynch Sterling Non-Gilts Index rebalanced annually. Prior to 31 December 2010 the benchmark was 75% of the FTSE All-Share Index and 25% of the FTA Government All Stocks Index. Source from AIC Report

Directors' remuneration (audited)

The remuneration paid to the Directors who served during the years ended 31 December 2016 and 31 December 2015 was as follows:

	Year ended 31 December 2016 Total salary and fees £	Year ended 31 December 2015 Total salary and fees £
Margaret Littlejohns[1]	30,323	25,000[2]
Andrew Bell	22,750	22,000
Zoe King[3]	17,125	–
Anthony Newhouse	22,750	24,000[2]
Janet Walker[4]	27,300	26,400
Vivian Bazalgette[5]	7,665	22,000
Hugh Twiss[5]	11,498	33,000
Total	**139,411**	**152,400**

Notes:

The table above omits other columns set out in the relevant regulations because no payments of other types such as taxable benefits, performance related pay, vesting performance related pay and pension related benefits, were made.

1 Chairman and highest paid Director

2 Margaret Littlejohns received a one off payment of £3,000 and Anthony Newhouse received a one off payment of £2,000 in the year ended 31 December 2015, for their additional work on the management and performance fee negotiations with Henderson and on the Company's senior unsecured note

3 Appointed on 1 April 2016

4 Chairman of the Audit Committee

5 Retired on 3 May 2016

No other remuneration or compensation was paid or payable by the Company during the year to any of the current or former Directors or third parties specified by any of them.

From 1 July 2016 the fees were as follows (previous rates are shown in brackets): Chairman £34,500 (£33,750) per annum, Audit Committee Chairman £27,600 (£27,000) per annum and Director £23,000 (£22,500) per annum.

Relative importance of spend on pay

In order to show the relative importance of spend on pay, the table below sets out the total level of remuneration compared to the distributions paid to shareholders by way of dividends. There were no share buybacks or other significant distributions, payments or other uses of the Company's profit or cash flow deemed to assist in the understanding of the relative importance of spend on pay.

	2016 £	2015 £	Change £
Total remuneration	139,411	152,400	(12,989)
Ordinary dividends paid during the year	10,131,018	9,639,537	491,481

Statement of voting at Annual General Meeting

At the 2016 Annual General Meeting 13,231,480 votes (97.6%) were received voting for the resolution seeking approval of the Directors' Remuneration Report, 119,418 (0.9%) were against, 197,636 (1.5%) were discretionary and 240,302 were withheld. At the 2014 Annual General Meeting 23,530,713 votes (96.8%) were received voting for the resolution seeking approval of the remuneration policy, 540,776 votes (2.2%) were against, 244,267 votes (1.0%) were discretionary and 898,964 were withheld. The quoted percentages have been calculated excluding votes withheld.

For and on behalf of the Board

Margaret Littlejohns
Chairman
28 March 2017

Corporate Governance Statement

Applicable corporate governance codes

The Board is accountable to shareholders for the governance of the Company's affairs. As an investment trust, the Company's day-to-day responsibilities are delegated to third parties. The Company has no employees and the Directors are all non-executive, therefore not all the provisions of the UK Corporate Governance Code (the 'UK Code') issued by the Financial Reporting Council ('FRC') in September 2014 are directly applicable to the Company. The Board has considered the principles and recommendations of the Code of Corporate Governance published by the Association of Investment Companies in February 2015 (the 'AIC Code') by reference to the AIC Corporate Governance Guide for Investment Companies (the 'AIC Guide'). The AIC Code, as explained by the AIC Guide, addresses all the applicable principles set out in the UK Code as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company. The FRC has confirmed that by following the AIC Guide, boards of investment companies should fully meet their obligations in relation to the UK Code and paragraph 9.8.6 of the Listing Rules.

The Board has noted that the FRC and the AIC have issued revised codes which the Company will be required to report against next year.

Copies of the AIC Code, the AIC Guide and the UK Code can be found on the respective organisations' websites: **www.theaic.co.uk** and **www.frc.org.uk**.

Statement of compliance

The Directors believe that the Company has complied with the recommendations of the AIC Code that are applicable to smaller companies (those below the FTSE 350) during the year under review and up to the date of this Annual Report, and thereby the provisions of the UK Code, except as set out below.

The UK Code includes provisions relating to:

- the role of the chief executive;
- executive directors' remuneration; and
- the need for an internal audit function.

For the reasons set out in the AIC Guide, and as explained in the UK Code, the Board considers these provisions are not relevant to the position of the Company as it is an externally managed investment company. In particular, all of the Company's day-to-day management and administrative functions are outsourced to third parties. As a result, the Company has no executive directors, employees or internal operations.

Directors

Directors' appointment and retirement

The Board may appoint Directors to the Board without shareholder approval. Any Director so appointed must stand for election by the shareholders at the next Annual General Meeting in accordance with the Articles of Association.

The AIC Code states that any Director who has served for more than nine years is subject to annual re-election. Andrew Bell and Janet Walker are therefore required to seek annual re-election to the Board and will do so at the 2017 Annual General Meeting.

The contribution and performance of each of the Directors seeking re-election was reviewed by the Nominations Committee at its meeting in January 2017, and, based on the results of that assessment, the continuing appointment of each of those Directors is recommended.

Under provisions of the Articles of Association shareholders may remove a Director before the end of his or her term by passing an ordinary resolution at a meeting. An ordinary resolution is passed if more than 50% of the votes cast, in person or by proxy, are in favour of the resolution.

Board independence

All Directors have a wide range of other interests and are not dependent on the Company. At the Nominations Committee meeting in January 2017, the Directors reviewed their independence and confirmed that all Directors remain wholly independent of Henderson. There were no contracts in existence 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.

Directors' professional development

When a new Director is appointed he or she receives an induction seminar which is held by Henderson at the request of the Chairman. Directors are also provided on a regular basis with key information on the Company's policies, regulatory and statutory requirements and internal controls. Changes affecting Directors' responsibilities are advised to the Board as they arise. Directors are able to attend external training facilities and industry seminars at the expense of the Company. Each Director's individual training requirements are considered as part of the annual performance evaluation.

Directors' insurance and indemnification

Directors' and officers' liability insurance is in place. Under provisions of the Company's Articles of Association and subject to the provisions of UK legislation, a qualifying third party provision indemnity may be provided to Directors in respect of costs which they may incur relating to the defence of any proceedings brought against them arising out of their positions as Directors, in which they are acquitted or judgement is given in their favour by the Court. No indemnity was given during the year or up to the date of this report.

Board

Board composition

The Board currently consists of five non-executive Directors and the biographies of those holding office at the date of this Annual Report are included on page 15. Those details demonstrate the breadth of investment, commercial, legal, financial and professional experience relevant to their positions as Directors. All current Directors with the exception of Zoe King, who joined 1 April 2016, served throughout the year.

Corporate Governance Statement (continued)

Responsibilities of the Board and its Committees

The Board, which is chaired by Margaret Littlejohns, who is an independent non-executive Director, meets formally approximately six times a year, with additional Board or Committee meetings arranged when required. The Directors have regular contact with the Fund Manager and representatives of the Corporate Secretary between formal meetings. The Board has a schedule of matters specifically reserved for its decision, which include strategy and management.

The Board is responsible for the approval of the annual and half year results and other public documents and for ensuring that such documents provide a fair, balanced and understandable assessment of the Company's position and performance.

At each meeting the Board reviews the Company's investment performance and considers financial analysis and other reports of an operational nature. The Board monitors performance against the Company's investment objective and is responsible for setting asset allocation, investment and gearing limits within which Henderson has discretion to act and regularly reviews investment strategy.

The Board has adopted a procedure for Directors to take independent professional advice in the furtherance of their duties at the expense of the Company. In order to enable them to discharge their responsibilities, all Directors have full and timely access to relevant information.

Committees of the Board

The Board has three principal Committees: the Audit Committee, the Nominations Committee and the Management Engagement Committee. The terms of reference for these Committees are available on the website **www.hendersonhighincome.com** or via the Corporate Secretary.

During the year, the Company established an Insider Committee to assist in meeting the disclosure requirements of the Market Abuse Regulations which came into force on 3 July 2016.

Audit Committee

The Audit Committee is chaired by Janet Walker. The Report of the Audit Committee, which forms part of the Corporate Governance Statement can be found on pages 33 to 35.

Nominations Committee

All Directors are members of the Nominations Committee, which is chaired by Margaret Littlejohns. The Nominations Committee is responsible for reviewing Board succession planning and tenure policy, the performance of the Board as a whole and its Committees and the recommendation to the Board on the appointment of new Directors through an established formal procedure. When considering succession planning, the Nominations Committee bears in mind the balance of skills, knowledge, experience, gender and diversity existing on the Board.

The Nominations Committee considers diversity as part of the annual performance evaluation. The Committee believes there is a range of backgrounds and each Director brings different qualities to the Board and its discussions.

Given the small size of the Board, it is not considered appropriate for the Company to have set targets in relation to diversity. Candidates will be assessed in relation to the relevant requirements of the Company at the time of appointment. The Nominations Committee will make recommendations to the Board when the recruitment of additional non-executive Directors is deemed necessary. Once a decision is made to recruit additional Directors to the Board, a formal job description is drawn up. The Company may use external agencies when recruiting additional Board members.

The Nominations Committee also reviews and recommends to the Board the Directors seeking re-election at the Annual General Meeting. Recommendation is not automatic and will follow a process of evaluation of each Director's performance and consideration of the Director's independence. The Nominations Committee takes into account the AIC Code and its ongoing requirement to refresh the Board and its committees. It aims to achieve a sensible balance between continuity and reinvigoration. The Nominations Committee does not consider that length of service disqualifies a Director from being recommended for re-appointment but will consider the composition of the Board as a whole and its mix of skills and experience.

The Nominations Committee met in January 2017 to carry out its annual review of the Board, its composition and size and that of its Committees. The Nominations Committee concluded that following the appointment of Margaret Littlejohns as Chairman of the Board in May 2016 and the appointment of a new independent non-executive director Zoe King in April 2016, the current composition and size of the Board and its Committees worked well.

Performance evaluation

The performance of the Company is considered in detail at each Board meeting. In the year under review the Board has conducted a review of its own performance, together with that of its Committees, the Chairman and each individual Director. This was conducted by the Chairman contacting each Director about the Board's performance and each Director's contribution. The Chairman of the Audit Committee contacted each Director about the performance of the Chairman. It was concluded that the evaluation findings demonstrated that the Board as a whole, had a broad range of skills including commercial, legal, investment, financial and other industry experience, as well as being diverse in terms of background and gender. Each Director brought different qualities to the Board and its discussions. In particular, the Committee considered that the Board operated effectively and the current Board composition was in the best interests of the Company and its shareholders. All the Directors notwithstanding their length of service, were considered to be independent. The Chairman demonstrated effective leadership and created the conditions for overall Board effectiveness by setting clear expectations concerning the Company's culture and values and shaping the style and tone of Board discussions.

The Nominations Committee recommended to the Board that the Directors seeking re-election at the Company's 2017 Annual General Meeting merit re-election by the shareholders.

Corporate Governance Statement (continued)

The use of external parties to undertake the performance evaluation may be considered by the Nominations Committee from time to time.

Management Engagement Committee
All Directors are members of the Management Engagement Committee, which is chaired by Margaret Littlejohns.

The Management Engagement Committee is responsible for reviewing the management contract on a regular basis, ensuring that the terms are fair and reasonable and that its continuance, given the Company's performance over both short and longer terms, is in the best interests of the Company and its shareholders. The Committee also reviews the performance and cost effectiveness of the Company's other service providers.

The Committee met in November 2016 to carry out its annual review of Henderson, the results of which are detailed on page 32.

Board attendance

The following table sets out the number of Board and Committee meetings held during the year under review and the number of meetings attended by each Director. All Directors attended the Annual General Meeting in May 2016.

	Board	AC	MEC	NC	IC
Number of meetings	**6**	**4**	**1**	**2**	**1**
Margaret Littlejohns	6	4	1	2	–
Andrew Bell	6	3	1	2	–
Zoe King[1]	4/4	2/2	1	–	1
Anthony Newhouse	6	4	1	2	1
Janet Walker	6	4	–	2	1
Vivian Bazalgette[2]	3/3	1/1	–	2/2	–
Hugh Twiss[2]	3/3	1/1	–	2/2	–

AC: Audit Committee
MEC: Management Engagement Committee
NC: Nominations Committee
IC: Insider Committee

1 Appointed on 1 April 2016
2 Retired on 3 May 2016

The Directors and Committees of the Board met during the year as needed to undertake business such as the approval of the Company's results and the appointment of Zoe King to the Board.

Internal controls and risk management

The Board has established an ongoing process for identifying, evaluating and managing any major risks faced by the Company (see principal risks and uncertainties on page 17 and 18). The process accords with Guidance on Risk Management, Internal Control and Related Financial and Business Reporting issued by the FRC in September 2014, and is subject to regular review by the Board. The Board has overall responsibility for the Company's system of internal controls and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate risks of failure to achieve the Company's business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board has reviewed the effectiveness of the Company's system of internal controls for the year ended 31 December 2016. During the course of its review the Board has not identified or been advised of any failings or weaknesses that have been determined as significant. All business risks faced by the Company are recorded in a risk map which is reviewed periodically.

Henderson has established an internal control framework to provide reasonable, but not absolute, assurance on the effectiveness of the internal controls operated on behalf of its clients. The effectiveness of the internal controls is assessed by Henderson's compliance, internal audit and risk departments on a continuing basis. The Board receives a formal report on a quarterly basis which details the steps taken to monitor the areas of risk, including those that are not directly the responsibility of Henderson, and which reports the details of any known internal control failures. The Board receives a report on Henderson's internal controls each year which includes a report from Henderson's Auditor on the control policies and procedures in operation.

The ongoing process for identifying, evaluating and managing significant risks faced by the Company has been in place throughout the year under review and up to the date of this Annual Report. Systems are in operation to safeguard the Company's assets and shareholders' investments, to maintain proper accounting records and to ensure that financial information used within the business, or published, is reliable. As all of the Company's management functions are delegated to third parties, and the Board monitors the controls in place with support from Henderson's internal audit department, the Board feels that there is currently no need for the Company to have its own internal audit function.

Accountability and relationship with Henderson

The Statement of Directors' Responsibilities in respect of the financial statements is set out on page 26 and the Independent Auditors' Report on pages 36 to 41.

The Board has delegated contractually to external third parties, including Henderson, the management of the investment portfolio, the custodial services (which include the safeguarding of the assets which is delegated through the appointment of the Depositary as explained on page 21), the day-to-day accounting, company secretarial and administration requirements and registration services. Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of the services offered, including the control systems in operation in so far as they relate to the affairs of the Company.

The Board receives and considers regular reports from Henderson and ad hoc reports and information are supplied to the Board as required. In addition, the Chairman is able to attend meetings of all the chairmen of the investment trust companies managed by Henderson which provide a forum to discuss industry matters which are then reported to the Board.

Corporate Governance Statement (continued)

Henderson takes decisions as to the purchase and sale of individual investments. Henderson also ensures that all Directors receive, in a timely manner, all relevant management, regulatory and financial information. Representatives of Henderson attend each Board meeting enabling the Directors to probe further on matters of concern. The Directors have access to the advice and services of the Corporate Secretary through its appointed representative who is responsible to the Board for ensuring that Board and Committee procedures are followed and that applicable rules and regulations are complied with. The proceedings at all Board and Committee meetings are recorded through a process that allows any Director's concerns to be recorded in the minutes. The Board and Henderson operate in a supportive, co-operative and open environment.

The Corporate Secretary, Henderson Secretarial Services Limited, is a subsidiary of Henderson with its own reporting lines and audited internal controls. There are processes and controls in place to ensure that there is a clear distinction between the two entities particularly when dealing with any conflicts or issues between the Company and Henderson.

Henderson and BNP Paribas Securities Services, which acts for Henderson, have arrangements in place by which their staff may, in confidence, raise concerns about possible improprieties in relation to financial reporting or other matters.

Continued appointment of Henderson

The Board considers the arrangements for the provision of investment management and other services to the Company on an ongoing basis. The principal contents of the agreement with Henderson are contained on page 4.

In addition to the monitoring of investment performance at each meeting, the Management Engagement Committee carries out an annual review of the Manager's investment performance over both the short and longer terms, together with the quality of other services provided by Henderson, which includes company secretarial and accounting services.

The Board remains satisfied with investment performance and, in particular the experience, skills and commitment of the Fund Manager. It is the Directors' opinion that the continuing appointment of Henderson on the existing terms is in the interests of the Company and its shareholders as a whole.

Share capital

Please see the Report of the Directors on page 24.

Relations with shareholders

Shareholder relations are given high priority by the Board. The prime medium by which the Company communicates with its shareholders is through the half year results and Annual Report which aim to provide shareholders with a clear understanding of the Company's activities and their results. This information is supplemented by the daily calculation and publication of the net asset value per share to a regulatory information service and a monthly fact sheet which is available on the website. Henderson also provides information on the Company and Fund Manager through videos on the website, via various social media channels and on its HGi content platform, more details of which are included on page 16.

The Board considers that shareholders should be encouraged to attend and participate in the Annual General Meeting. Shareholders have the opportunity to address questions to the Chairman of the Board, the Chairman of the Audit Committee and all other Directors at the meeting and the Fund Manager who will make a presentation on the Company's performance. A summary of the proxy votes received on the resolutions proposed is displayed at the meeting and each substantial issue is dealt with in a separate resolution. It is the intention of the Board that the Annual Report and notice of Annual General Meeting be issued to shareholders so as to provide at least 20 working days' notice of the Annual General Meeting. These documents will be uploaded to the website. Shareholders wishing to lodge questions in advance of the meeting, or raise issues or concerns at any time, are invited to do so by writing to the Chairman at the registered office address given on page 16 of this Annual Report.

Shareholder correspondence which is sent to the registered office is provided to the Chairman (or whoever the letter is addressed to) for him/her to respond to. All shareholder correspondence and the responses are enclosed in the next meeting papers of the Company so the whole Board sees the correspondence.

General presentations to both shareholders and analysts follow the publication of the annual results.

By order of the Board

Henderson Secretarial Services Limited
Corporate Secretary
28 March 2017

Report of the Audit Committee

Composition

The Audit Committee comprises all of the Directors and is chaired by Janet Walker who is a chartered accountant. The other Audit Committee members have a combination of financial, legal, commercial and investment experience gained through their careers and the Board is satisfied that at least one of the Committee's members has recent and relevant financial experience. All members of the Audit Committee are independent.

Meetings

The Audit Committee met four times during the year under review. The Company's Auditor is invited to attend meetings as necessary. Representatives of Henderson and BNP Paribas Securities Services may also be invited.

During the year under review the Audit Committee reviewed its terms of reference and recommended changes to the Board which were approved. The terms of reference are available on the Company's website or a copy may be obtained through the Corporate Secretary. The Audit Committee recommended that the Chairman of the Board remain a member of the Audit Committee as she is considered independent, as are the other members of the Audit Committee, and the Board confirms that she was also considered independent on appointment to the Board. In addition, given the small size of the Board, it was considered impractical to prevent the Chairman attending the Audit Committee meetings.

Role and responsibilities

The role of the Audit Committee is to assist the Board in applying financial reporting and internal control principals and to maintain an appropriate relationship with the Auditor. The responsibilities are set out in formal terms of reference which are regularly reviewed. In the year under review the main duties undertaken were:

- consideration of the appropriateness of the Company's accounting policies;
- a review of the half year results and the Annual Report, including the disclosures made therein in relation to internal controls and risk management, viability statement, going concern and related parties and consideration of whether the Annual Report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy in order to make recommendations to the Board;
- in assessing whether the report is fair, balanced and understandable, each Director reviewed the disclosures made, applying his or her respective knowledge and expertise. The internal controls over financial reporting were also considered, together with feedback from the Company's Auditor and the Corporate Secretary;
- consideration of the quality and effectiveness of the accounting records and management information maintained on behalf of the Company, relying on meetings with and reports from Henderson;
- consideration of the appropriate level of dividend to be paid by the Company for recommendation to the Board;
- consideration of the internal controls in place at Henderson and BNP Paribas Securities Services as administrator and Henderson's policies in relation to cyber risk and business continuity, meeting with representatives of Henderson's internal audit and risk departments periodically;
- consideration of the performance fee calculation;
- consideration of the key risks, risk management systems in place and the Company's risk map;
- consideration of the Company's anti-bribery policy;
- consideration of the nature and scope of the external audit and the findings therefrom;
- consideration of whether there is a need for an internal audit function in order to make a recommendation to the Board, as described on page 31;
- consideration of the appointment of the Auditor, and its effectiveness, performance and remuneration (see pages 34 and 35);
- consideration of the Auditor's independence and objectivity and the provision of any non-audit services (as explained further on page 34) and the reporting of the external Auditor;
- consideration of the whistleblowing policy that Henderson has put in place for its staff to raise concerns about possible improprieties, including in relation to the Company, in confidence. The policy includes the necessary arrangements for independent investigation and follow up action; and
- undertaking an audit tender process.

Report of the Audit Committee (continued)

Annual Report for the year ended 31 December 2016

In relation to the Annual Report for the year ended 31 December 2016 the following significant issues were considered by the Committee:

Significant issues and audit matters	How it was addressed
Valuation and ownership of the Company's investments	The Directors have appointed Henderson, who outsource some of the administration and accounting services to BNP Paribas Securities Services, to perform the valuation of the assets of the Company in accordance with its responsibilities under the AIFMD rules. As required under the AIFMD rules, Henderson has adopted a written valuation policy, which may be modified from time to time. Actively traded investments are valued using stock exchange prices provided by third party pricing vendors. Ownership of listed investments is verified by reconciliation to the Custodian's records and the Directors have received quarterly reports of the Depositary who has responsibility for overseeing operations of the Company, including verification of ownership and valuation.
Recognition of income	Income received is accounted for in line with the Company's accounting policies (as set out in note 1e) on page 46) and is reviewed by the Audit Committee at each meeting.
Compliance with Section 1158 of the Corporation Tax Act 2010	The Committee considers the controls in place to ensure that the regulations for ensuring investment trust status are observed at all times.
Maintaining internal controls	The Audit Committee receives regular reports on internal controls from Henderson, BNP Paribas Securities Services and HSBC Securities Services, and has access to the relevant personnel of Henderson who have a responsibility for risk management and internal audit.
Correct calculation of the performance related fee	The year end performance related fee calculation is prepared by BNP Paribas Securities Services and reviewed by Henderson. It is reviewed in depth by the Audit Committee, all with reference to the Investment Management Agreement.
Appointment of Auditor	The Committee undertook an audit tender during the year and recommended the appointment of PricewaterhouseCoopers LLP to the Board, as detailed below.

Policy on non-audit services

The provision of non-audit services by the Company's Auditor is considered and approved by the Audit Committee on a case by case basis. The policy set by the Audit Committee, which is kept under review, ensures that consideration is given to the following factors when considering the provision of non-audit services by the Auditor:

- the level of non-audit fees paid to the audit firm in relation to the statutory audit fee;
- whether the audit firm is the most suitable supplier of non-audit services;
- the impact on the Auditor's independence and objectivity and what safeguards can be put in place to eliminate or reduce any threat in this regard; and
- the cost-effectiveness of the services.

The Board has determined that the Auditor will never be considered for the provision of services related to accounting and preparation of the financial statements, internal audit and custody.

During the year under review the Company's Auditor did not provide any non-audit services.

The Statutory Auditors and Third Country Auditors Regulations came into force on 17 June 2016. In light of the new regulations, the Committee approved a revised policy on the provision of non-audit services by the Auditor whereby all other services undertaken by the Auditor would require pre-approval by the Committee.

Auditor tender and appointment

As a Public Interest Entity listed on the London Stock Exchange, the Company is subject to the mandatory rotation requirements of the European Union. This means that the Company will be required to put its audit contract out to tender at least every 10 years and change Auditor at least every 20 years. The Auditor is required to rotate partners every five years and this is the first year that the current Audit Partner has been in place.

During the year the Company tendered its audit and upon consideration of the tenders received, the Board decided to appoint PricewaterhouseCoopers LLP as statutory Auditor to the Company. The appointment was accepted by PricewaterhouseCoopers LLP on 14 December 2016.

Report of the Audit Committee (continued)

This is the first year PricewaterhouseCoopers LLP has audited the Company's Annual Report and financial statements. At the Audit Committee meeting in March 2017, the Audit Committee assessed the performance of PricewaterhouseCoopers LLP through discussions both with the Auditor present and privately, with the Fund Manager and the Company Secretary, to provide feedback on the audit process. The Committee is satisfied that the Auditor is independent of the Company. On the basis of the Auditor's performance, the Audit Committee recommended their continuing appointment to the Board.

PricewaterhouseCoopers LLP has indicated its willingness to continue in office. Accordingly, resolutions to confirm the appointment of PricewaterhouseCoopers LLP as Auditor to the Company, and to authorise the Directors to determine their remuneration, will be proposed at the Annual General Meeting.

Fees paid or payable to the Auditor are detailed in note 6 on page 49.

Janet Walker
Audit Committee Chairman
28 March 2017

Independent Auditors' Report to the Members of Henderson High Income Trust plc

Report on the financial statements

Our opinion

In our opinion, Henderson High Income Trust plc's financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its net return and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report, comprise:

- the Statement of Financial Position as at 31 December 2016;
- the Income Statement for the year then ended;
- the Cash Flow Statement for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

Our audit approach

Overview

- Overall materiality: £2.1 million which represents 1% of Net Assets.

- The Company is a standalone Investment Trust Company and engages Henderson Investment Funds Limited (the "Manager") to manage its assets.
- We conducted our audit of the financial statements using information from BNP Paribas Securities Services (the "Administrator") to whom the Manager has, with the consent of the Directors, delegated the provision of certain administrative functions.
- We tailored the scope of our audit taking into account the types of investments within the Company, the involvement of the third parties referred to above, the accounting processes and controls, and the industry in which the Company operates.

- Valuation and existence of investments.
- Income from investments.
- Performance fee.

Independent Auditors' Report to the Members of Henderson High Income Trust plc (continued)

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
Valuation and existence of investments Refer to page 34 (Report of the Audit Committee), page 46 (Accounting Policies) and page 51 (notes). The investment portfolio at the year-end comprised of listed equity investments and fixed interest instruments valued at £253 million. We focused on the valuation and existence of investments because investments represent the principal element of the net asset value disclosed in the Statement of Financial Position.	We tested the valuation of the listed equity investments and fixed interest instruments by agreeing the prices used in the valuation to independent third party sources. No misstatements were identified by our testing which required reporting to those charged with governance. We tested the existence by agreeing the listed equity investments and fixed interest instruments to an independent custodian confirmation from HSBC Bank plc. No differences were identified which required reporting to those charged with governance.

Independent Auditors' Report to the Members of Henderson High Income Trust plc (continued)

Income from investments Refer to page 34 (Report of the Audit Committee), page 46 (Accounting Policies) and page 49 (notes). Income from investments comprised of dividend income and interest income. We focused on the accuracy, completeness and occurrence of investment income recognition and its presentation in the Income Statement as set out in the requirements of The Association of Investment Companies Statement of Recommended Practice (the "AIC SORP"). This is because incomplete or inaccurate income could have a material impact on the Company's net asset value.	We assessed the accounting policy for investment income recognition for compliance with accounting standards and the AIC SORP, and performed testing to check that investment income had been accounted for in accordance with this stated accounting policy. We found that the accounting policies implemented were in accordance with accounting standards and the AIC SORP, and that investment income has been accounted for in accordance with the stated accounting policy. **Dividend Income** We tested dividend receipts by agreeing the dividend rates from investments to independent third party sources. No misstatements were identified by our testing which required reporting to those charged with governance. We also tested that for investment holdings in the portfolio, all dividends recorded had been declared in the market, and that all dividends declared in the market had been recorded. Our testing did not identify any incorrectly recorded or omitted dividends. We tested occurrence by tracing a sample of dividends received to bank statements. Our testing did not identify any misstatements which required reporting to those charged with governance. We tested the allocation and presentation of dividend income between the revenue and capital return columns of the Income Statement in line with the requirements set out in the AIC SORP. We then tested the validity of special dividends to independent third party sources. We did not find any special dividends that were not treated in accordance with the AIC SORP. **Interest income** We tested interest income by recalculating the expected coupon interest and amortisation using the opening and closing portfolios. We agreed a sample of coupon rates and maturity dates to independent third party sources. No misstatements were identified by our testing which required reporting to those charged with governance. We also tested that for a sample of investment holdings in the portfolio, all interest income recorded had been declared in the market, and that all interest income declared in the market had been recorded. Our testing did not identify any incorrectly recorded or omitted interest income. We tested occurrence by tracing a sample of interest income received to bank statements. Our testing did not identify any misstatements which required reporting to those charged with governance.
Performance fee Refer to page 34 (Report of the Audit Committee), page 46 (Accounting Policies) and page 49 (notes). No performance fee is payable for the year. We focused on this area because the performance fee is calculated using a complex methodology as set out in the Investment Management Agreement between the Company and the Manager.	We tested the calculation of the performance fee to ensure that it complied with the methodology as set out in the Investment Management Agreement, and agreed the inputs to the calculation, including the net asset value and benchmark data, to independent third party sources, where applicable. No misstatements were identified by our testing which required reporting to those charged with governance.

Independent Auditors' Report to the Members of Henderson High Income Trust plc (continued)

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the involvement of the Company's third party service providers, including the Manager and Administrator, the accounting processes and controls, and the industry in which the Company operates.

The Company's accounting function is delegated to the Administrator who maintains the accounting records and operates controls over the accounting function.

As part of our risk assessment, we assessed the control environment in place at both the Manager and the Administrator to the extent relevant to our audit. This assessment of the operating and accounting structure in place at both organisations involved obtaining and reading the relevant control reports issued by the independent auditor of the Manager and the Administrator in accordance with generally accepted assurance standards for such work. Following this assessment, we applied professional judgement to determine the extent of testing required over each balance in the financial statements.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£2.1 million.
How we determined it	1% of Net Assets.
Rationale for benchmark applied	We have applied this benchmark, a generally accepted auditing practice for investment trust audits.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £103,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 46, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Company has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Company's ability to continue as a going concern.

Other required reporting

Consistency of other information and compliance with applicable requirements

Companies Act 2006 reporting

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Report of the Directors have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Report of the Directors. We have nothing to report in this respect.

Independent Auditors' Report to the Members of Henderson High Income Trust plc (continued)

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

▪ information in the Annual Report is: – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or – otherwise misleading.	We have no exceptions to report.
▪ the statement given by the Directors on page 26, in accordance with provision C.1.1 of the UK Corporate Governance Code (the "Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Company acquired in the course of performing our audit.	We have no exceptions to report.
▪ the section of the Annual Report on pages 33 to 35, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report.

The Directors' assessment of the prospects of the Company and of the principal risks that would threaten the solvency or liquidity of the Company

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

▪ the Directors' confirmation on pages 17 and 18 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.
▪ the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
▪ the Directors' explanation on page 18 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the Directors' statement that they have carried out a robust assessment of the principal risks facing the Company and the Directors' statement in relation to the longer-term viability of the Company. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' remuneration report – Companies Act 2006 opinion

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Independent Auditors' Report to the Members of Henderson High Income Trust plc (continued)

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 26, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Report of the Directors, we consider whether those reports include the disclosures required by applicable legal requirements.

Richard McGuire (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
28 March 2017

Income Statement

Notes		Year ended 31 December 2016 Revenue return £'000	Year ended 31 December 2016 Capital return £'000	Year ended 31 December 2016 Total £'000	Year ended 31 December 2015 Revenue return £'000	Year ended 31 December 2015 Capital return £'000	Year ended 31 December 2015 Total £'000
2	Gains on investments held at fair value through profit or loss	–	9,561	9,561	–	5,376	5,376
3	Income from investments held at fair value through profit or loss	12,306	–	12,306	12,067	–	12,067
4	Other interest receivable and similar income	57	–	57	27	–	27
	Gross revenue and capital gains	**12,363**	**9,561**	**21,924**	**12,094**	**5,376**	**17,470**
5	Management and performance fees	(481)	(721)	(1,202)	(469)	(1,949)	(2,418)
6	Other administrative expenses	(378)	–	(378)	(385)	–	(385)
	Net return on ordinary activities before finance costs and taxation	**11,504**	**8,840**	**20,344**	**11,240**	**3,427**	**14,667**
7	Finance costs	(279)	(836)	(1,115)	(206)	(616)	(822)
	Net return on ordinary activities before taxation	**11,225**	**8,004**	**19,229**	**11,034**	**2,811**	**13,845**
8	Taxation on net return on ordinary activities	(159)	72	(87)	(97)	67	(30)
	Net return on ordinary activities after taxation	**11,066**	**8,076**	**19,142**	**10,937**	**2,878**	**13,815**
9	Return per ordinary share	9.93p	7.25p	17.18p	9.96p	2.62p	12.58p

The total columns of this statement represent the income statement of the Company. All capital and revenue items derive from continuing operations. No operations were acquired or discontinued during the year. The Company has no other comprehensive income other than those items recognised in the income statement.

The notes on pages 46 to 58 form part of these financial statements

Statement of Changes in Equity

Notes	Year ended 31 December 2016	Called up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
	At 1 January 2016	5,553	94,038	26,302	64,581	6,637	197,111
	Net return on ordinary shares after taxation	–	–	–	8,076	11,066	19,142
15	Issue of new shares	44	1,557	–	–	–	1,601
	Fourth interim dividend (2.275p per share) for the year ended 31 December 2015, paid 29 January 2016	–	–	–	–	(2,527)	(2,527)
	First interim dividend (2.275p per share) for the year ended 31 December 2016, paid 29 April 2016	–	–	–	–	(2,531)	(2,531)
	Second interim dividend (2.275p per share) for the year ended 31 December 2016, paid 29 July 2016	–	–	–	–	(2,531)	(2,531)
	Third interim dividend (2.275p per share) for the year ended 31 December 2016, paid 28 October 2016	–	–	–	–	(2,542)	(2,542)
	At 31 December 2016	**5,597**	**95,595**	**26,302**	**72,657**	**7,572**	**207,723**

	Year ended 31 December 2015	Called up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
	At 1 January 2015	5,444	90,198	26,302	61,703	5,340	188,987
	Net return on ordinary shares after taxation	–	–	–	2,878	10,937	13,815
	Issue of new shares	109	3,840	–	–	–	3,949
	Fourth interim dividend (2.175p per share) for the year ended 31 December 2014, paid 30 January 2015	–	–	–	–	(2,368)	(2,368)
	First interim dividend (2.175p per share) for the year ended 31 December 2015, paid 30 April 2015	–	–	–	–	(2,378)	(2,378)
	Second interim dividend (2.175p per share) for the year ended 31 December 2015, paid 31 July 2015	–	–	–	–	(2,383)	(2,383)
	Third interim dividend (2.275p per share) for the year ended 31 December 2015, paid 30 October 2015	–	–	–	–	(2,511)	(2,511)
	At 31 December 2015	**5,553**	**94,038**	**26,302**	**64,581**	**6,637**	**197,111**

The notes on pages 46 to 58 form part of these financial statements

Statement of Financial Position

Notes		At 31 December 2016 £'000	At 31 December 2015 £'000
	Fixed assets		
10	Investments held at fair value through profit or loss	252,990	241,912
	Current assets		
11	Debtors	1,340	1,349
	Cash at bank and in hand	1,742	1,223
		3,082	**2,572**
12	**Creditors: amounts falling due within one year**	(28,543)	(27,577)
	Net current liabilities	**(25,461)**	**(25,005)**
	Total assets less current liabilities	**227,529**	**216,907**
13	**Creditors: amounts falling due after more than one year**	(19,806)	(19,796)
	Net assets	**207,723**	**197,111**
	Capital and reserves		
15	Share capital	5,597	5,553
16	Share premium account	95,595	94,038
16	Capital redemption reserve	26,302	26,302
16	Other capital reserve	72,657	64,581
16	Revenue reserve	7,572	6,637
	Total shareholders' funds	**207,723**	**197,111**
17	Net asset value per ordinary share (basic and diluted)	185.56p	177.47p

The financial statements and corresponding notes on pages 46 to 58 were approved by the Board of Directors on 28 March 2017, and signed on its behalf by:

Margaret Littlejohns
Chairman

The notes on pages 46 to 58 form part of these financial statements

Cash Flow Statement

Notes		2016 £'000	2015 £'000
	Cash flows from operating activities		
	Net return on ordinary activities before taxation	19,229	13,845
	Add back: finance costs	1,115	822
	Less: gains on investments held at fair value through profit or loss	(9,561)	(5,376)
	Withholding tax on dividends deducted at source	(87)	(29)
	Taxation recovered	5	1
	Decrease in prepayments and accrued income	4	12
	(Decrease)/increase in accruals and deferred income	(1,396)	121
	Net cash inflow from operating activities	**9,309**	**9,396**
	Cash flows from investing activities		
	Sales of investments held at fair value through profit or loss	46,171	39,240
	Purchases of investments held at fair value through profit or loss	(46,468)	(43,905)
	Net cash outflow from investing activities	**(297)**	**(4,665)**
	Cash flows from financing activities		
	Issue of ordinary share capital	1,601	3,949
	Equity dividends paid	(10,131)	(9,640)
	Drawdown/(repayment) of loans	1,191	(18,664)
	Issue of senior unsecured note	–	19,796
	Interest paid	(1,105)	(822)
	Net cash flow from financing activities	**(8,444)**	**(5,381)**
	Net increase/(decrease) in cash and cash equivalents	568	(650)
	Cash and cash equivalents at beginning of year	1,223	1,860
	Exchange movements	(49)	13
	Cash and cash equivalents at end of year	**1,742**	**1,223**
	Comprising:		
	Cash at bank	**1,742**	**1,223**

The notes on pages 46 to 58 form part of these financial statements

Notes to the Financial Statements

1 Accounting policies

a) Basis of preparation

The Company is a registered investment company as defined in Section 833 of the Companies Act 2006. It operates in the United Kingdom and is registered at the address on page 16.

The financial statements have been prepared in accordance with the Companies Act 2006, FRS 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland, and with the Statement of Recommended Practice: Financial Statements of Investment Trust Companies and Venture Capital Trusts ('the SORP') issued in November 2014. The Company has early adopted the amendments to FRS 102 in respect of fair value hierarchy disclosures as published in March 2016.

The principal accounting policies applied in the presentation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

The financial statements have been prepared under the historical cost basis except for the measurement at fair value of investments. In applying FRS 102, financial instruments have been accounted for in accordance with Section 11 and 12 of the standard. All of the Company's operations are of a continuing nature.

b) Going concern

The assets of the Company consist of securities that are readily realisable and, accordingly, the Directors believe that the Company has adequate resources to continue in operational existence for at least twelve months from the date of approval of the financial statements. The Company's shareholders are asked every five years to vote for the continuation of the Company. An ordinary resolution to this effect was passed by the shareholders at the Annual General Meeting held on 5 May 2015. Having assessed these factors, the principal risks and other matters discussed in connection with the viability statement, the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

c) Valuation of investments

The Company's business is investing in financial assets with a view to profiting from their total return in the form of income and capital growth. This portfolio of financial assets is managed and its performance evaluated on a fair value basis, in accordance with a documented investment strategy, and information about the portfolio is provided internally on that basis to the Company's Board of Directors. Accordingly, upon initial recognition the investments are included initially at fair value, which is taken to be their cost. Subsequently, the investments are valued at fair value, which is measured as follows:

Listed investments are valued at fair value deemed to be bid market prices or the last traded price depending on the convention of the exchange on which the investment is quoted.

All fair value movements in investments are taken to the income statement. In accordance with the SORP, the Company's profit and loss account is split between revenue and capital return columns as can be seen in the income statement. Fair value movements on investments are taken to the capital column in the income statement.

d) Capital gains and losses

Profits less disposal of investments and investment holding gains and losses are taken to the capital column in the income statement and transferred to other capital reserves.

e) Income

Dividends receivable on equity shares are taken to the income statement on an ex-dividend basis. Income from fixed interest debt securities and preference shares with no fixed maturity date is recognised on a time-apportioned basis. Income from other fixed interest securities is recognised so as to reflect the effective interest rate on these securities.

f) Expenses

All expenses and finance charges 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. The Directors have determined that the proportion of the annual management fees that relates to the maintenance or enhancement of the valuation of investments is 80%. On this basis, the Company charges 75% of that proportion (i.e. 60% of total management fees) and 75% of its finance costs to capital. The balance of the management fees and finance costs are charged to revenue. All performance fees are charged to capital. Expenses which are incidental to the acquisition of an investment are charged to the income statement and included within gains/losses on investments. Expenses which are incidental to the disposal of an investment are deducted from sale proceeds and go to the income statement indirectly.

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

g) Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using the effective tax rate of corporation tax for the accounting period.

The tax effect of different items of expenditure is allocated between the capital return and revenue return using the Company's effective rate of tax for the year. In line with the recommendations of the AIC SORP, the allocation method used to calculate tax relief on expenses presented against capital returns on the income statement is the 'marginal basis'. Under this basis, if taxable income is capable of being offset entirely by expenses presented in the revenue column of the income statement, then no tax relief is transferred to the capital return column.

Deferred taxation is provided on all timing differences that have originated but not been reversed by the statement of financial position date, other than those differences regarded as permanent. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Any liability to deferred tax is provided at the average rate of tax expected to apply. Deferred tax assets and liabilities are not discounted to reflect the time value of money. The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

h) Foreign currency

The results and financial position of the Company are expressed in sterling, which is the functional and presentational currency of the Company. Sterling is the functional currency because the Company is listed in the UK with a predominantly UK shareholder base.

Transactions denominated in overseas currencies during the year are translated into sterling at the appropriate daily exchange rate. Assets and liabilities denominated in overseas currencies at the statement of financial position date are translated into sterling at the exchange rate ruling at that date. Differences arising from translation at this rate of exchange are dealt with in the income statement as a capital item and then transferred to capital reserves.

i) Borrowings

Interest-bearing bank loans, overdrafts and the senior unsecured note are recorded initially as proceeds received, net of direct issue costs. They are subsequently measured at amortised cost. Finance costs, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the income statement, using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

j) Derivative financial instruments

Derivative transactions which the Company may enter into comprise forward exchange contracts (the purpose of which is to hedge foreign currency exposure) and futures contracts on indices appropriate to sections of the portfolio (one purpose for which may be to provide protection against falls in the capital values of the holdings). The Company may also write options on shares represented in the portfolio where such options are priced attractively relative to Henderson's expectations for the relevant share prices and to generate additional return for shareholders. The Company does not use derivative financial instruments for speculative purposes. The use of financial derivatives is governed by the Company's policies as approved by the Board.

Changes in the fair value of derivative financial instruments are recognised in the income statement as they arise. If capital in nature, the associated change in value is presented as a capital item in the income statement. There were no derivatives held during the year (2015: same).

Where options are written for the purpose of generating revenue, applicable premiums are recognised evenly over the life of the option and shown in the revenue return, with the appropriate amount shown as a capital return such that the total return reflects the overall change in the fair value of the option.

k) Dividends payable to shareholders

Dividends payable to shareholders are recognised in the financial statements when they are paid, or in the case of final dividends, when they are approved by shareholders. Dividends are dealt with in the Statement of Changes in Equity.

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

l) Capital and reserves

Share capital represents the nominal value of shares issued.

The share premium account represents the premium above nominal value received by the Company on issuing shares net of issue costs.

The revenue reserve represents accumulated revenue profits retained by the Company that have not currently been distributed to shareholders as a dividend.

The capital redemption reserve represents the nominal value of ordinary shares repurchased and cancelled.

Other capital reserves are split into two components, the capital reserve arising on investments sold and the capital reserve arising on investments held. The following analyses what is accounted for in each other of these components.

Capital reserve arising on investments sold

The following are accounted for in this reserve:

- gains and losses on disposals of investments;
- realised foreign exchange differences of a capital nature;
- cost of repurchasing ordinary share capital; and
- other capital charges and credits charged to this account in accordance with the above policies.

Capital reserve arising on investments held

The following are accounted for in this reserve:

- increases and decreases in the valuation of investments held at the year end; and
- unrealised foreign exchange differences of a capital nature.

m) Distributable reserves

The Company's capital reserve arising on investments sold and revenue reserve may be distributed by way of a dividend.

2 Gains on investments held at fair value through profit or loss

	2016 £'000	2015 £'000
Gains on the sale of investments based on historical cost	4,517	8,721
Revaluation gains recognised in previous years	(4,933)	(7,551)
(Losses)/gains on investments sold in the year based on carrying value at previous statement of financial position date	**(416)**	**1,170**
Net movement on revaluation of investments	11,197	4,277
Exchange losses	(1,220)	(71)
	9,561	**5,376**

Notes to the Financial Statements (continued)

3 Income from investments held at fair value through profit or loss

	2016 £'000	2015 £'000
UK dividend income – listed	8,720	8,521
UK dividend income – special dividends	581	761
	9,301	**9,282**
Interest income – listed	1,288	1,236
Overseas dividend income – listed	1,717	1,549
	3,005	**2,785**
	12,306	**12,067**

4 Other interest receivable and similar income

	2016 £'000	2015 £'000
Underwriting commission (allocated to revenue)	57	27
	57	**27**

5 Management and performance fees

	2016			2015		
	Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
Management fee	481	721	1,202	469	703	1,172
Performance fee	–	–	–	–	1,246	1,246
Total fee	**481**	**721**	**1,202**	**469**	**1,949**	**2,418**

A summary of the terms of the Investment Management Agreement is given on page 4 in the Strategic Report. An explanation of the split between revenue and capital is contained in accounting policy 1f) on page 46. No performance fee was earned during the year (2015: £1,246,000).

6 Other administrative expenses

	2016 £'000	2015 £'000
Directors' fees (see Directors' Remuneration Report on page 28)	139	152
Auditor's Remuneration – for audit services	32	31
Depositary fees	23	24
Registrar fees	19	17
Sales and marketing expenses payable to the management company	67	54
Other expenses (including irrecoverable VAT)	98	107
	378	**385**

7 Finance costs

	2016			2015		
	Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
Interest on bank loans repayable within one year and on bank overdrafts	93	279	372	117	351	468
Interest on senior unsecured note	186	557	743	89	265	354
	279	**836**	**1,115**	**206**	**616**	**822**

Notes to the Financial Statements (continued)

8 Taxation on net return on ordinary activities

a)

	2016			2015		
	Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
Overseas withholding tax	87	–	87	30	–	30
Tax relief to capital	72	(72)	–	67	(67)	–
Total current tax charge for the year	**159**	**(72)**	**87**	**97**	**(67)**	**30**

b) Factors affecting tax charge for the year

The tax charge for the year is lower than the charge derived by applying the standard rate of UK corporation tax for investment companies (20%) to the net revenue before taxation. The differences are explained in the reconciliation below.

	2016			2015		
	Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
Net revenue before taxation	**11,225**	**8,004**	**19,229**	**11,034**	**2,811**	**13,845**
Corporation tax of 20% (2015: 20.25%)	2,245	1,601	3,846	2,235	569	2,804
Effects of:						
– UK dividends	(1,871)	–	(1,871)	(1,880)	–	(1,880)
– Non–taxable overseas dividends	(302)	–	(302)	(284)	–	(284)
– Excess management expenses	(70)	311	241	(67)	520	453
– Tax relief to capital	72	(72)	–	67	(67)	–
– Income taxable in different years	(2)	–	(2)	(4)	–	(4)
– Irrecoverable income tax suffered at source	87	–	87	30	–	30
– Gains on investments held at fair value	–	(1,912)	(1,912)	–	(1,089)	(1,089)
Total current tax charge for the year	**159**	**(72)**	**87**	**97**	**(67)**	**30**

The Company is an investment trust and therefore its capital gains are not taxable.

c) Factors that may affect future tax charges

No provision for deferred taxation has been made in the current or prior accounting year. The Company has not provided for deferred tax on capital gains or losses arising on the revaluation and disposal of investments as it is exempt from tax on these items because of its investment trust status. The Company has not recognised a deferred tax asset totalling £2,842,000 (2015: £2,603,000) based on a prospective corporation tax rate of 20% (2015: 20%).

The UK Government announced in July 2015 that the corporate tax rate is set to be cut to 19% in 2017 and 18% in 2020. These reductions in the standard rate of corporation tax were substantially enacted on 26 October 2015 and became effective from 18 November 2015. The rate for 2020 was further reduced to 17% in the Finance Act 2016. The deferred tax asset arises as a result of having unutilised management expenses and unutilised non-trade loan relationship deficits. These expenses will only be utilised, to any material extent, if the Company has profits chargeable to corporation tax in the future because changes are made either to the tax treatment of the capital gains made by investment trusts or to the Company's investment profile which require them to be used.

Notes to the Financial Statements (continued)

9 Return per ordinary share

The return per ordinary share figure is based on the gains attributable to the ordinary shares of £19,142,000 (2015: £13,815,000) and on the 111,434,989 weighted average number of ordinary shares in issue during the year (2015: 109,794,009).

The Company had no securities in issue that could dilute the return per ordinary share.

The return per ordinary share can be analysed between revenue and capital as shown below:

	2016 £'000	2015 £'000
Net revenue return	11,066	10,937
Net capital return	8,076	2,878
Total return	**19,142**	**13,815**
Weighted average number of ordinary shares	111,434,989	109,794,009
Revenue return per ordinary share	9.93p	9.96p
Capital return per ordinary share	7.25p	2.62p
Total return per ordinary share	**17.18p**	**12.58p**

10 Investments held at fair value through profit or loss

	2016 £'000	2015 £'000
Valuation at 1 January	241,912	231,802
Investment holding gains at 1 January	(51,020)	(54,296)
Cost at 1 January	**190,892**	**177,506**
Purchases at cost	46,504	43,905
Sales at cost	(41,691)	(30,519)
Cost at 31 December	**195,705**	**190,892**
Investment holding gains at 31 December	57,285	51,020
Valuation of investments at 31 December	**252,990**	**241,912**

Total transaction costs amounted to £169,000 (2015: £204,000) of which purchase transaction costs for the year ended 31 December 2016 were £146,000 (2015: £177,000). Sale transaction costs for the year ended 31 December 2016 were £23,000 (2015: £27,000). These comprise mainly stamp duty (purchases only) and commissions.

11 Debtors

	2016 £'000	2015 £'000
Taxation recoverable	15	20
Prepayments and accrued income	1,325	1,329
	1,340	**1,349**

12 Creditors: amounts falling due within one year

	2016 £'000	2015 £'000
Bank loans and overdrafts	27,781	25,419
Accruals	762	2,158
	28,543	**27,577**

The Company has a three year multi-currency loan facility of £30,000,000 with Scotiabank (2015: £30,000,000). At 31 December 2016 the Company had short term multi-currency loans under the Scotiabank loan facility amounting to £27,781,000, repayable in January, February and March 2017 (2015: £25,419,000, repayable in January and February 2016). The average interest rate payable on these loans was 1.25% (2015: 1.32%).

Notes to the Financial Statements (continued)

13 Creditors: amounts falling due after more than one year

	2016 £'000	2015 £'000
Senior unsecured note	19,806	19,796
	19,806	**19,796**

On 8 July 2015 the Company issued a £20,000,000 (nominal) 3.67% senior unsecured note due 2034, net of issue costs totalling £204,000. The issue costs will be amortised over the life of the senior unsecured note by way of an effective interest rate method. Fair value of the senior unsecured note is shown in note 14.4.

14 Financial risk management policies and procedures

As an investment trust, the Company invests in equities and other investments for the long term so as to secure its investment objective and policy as stated on page 4. In pursuing its investment objective and policy, the Company is exposed to a variety of financial risks that could result in either a reduction in the Company's net assets or a reduction in the profits available for distribution by way of dividends.

These financial risks: market risk (comprising market price risk, currency risk and interest rate risk), credit risk, liquidity risk and gearing, and the Directors' approach to the management of these risks, are set out below and have not changed from the previous accounting period. The Board receives regular financial and other reporting to enable it to measure these risks. The Board and Henderson co-ordinate the Company's risk management and there are various risk management systems in place as detailed below.

- Listed securities, exchange-traded derivatives and over the counter ('OTC') derivatives contracts are processed, confirmed and reconciled using automated systems linked to counterparties and clearing houses;
- Portfolio modelling and investment management functions (including order-raising, dealing and trade execution) are performed using one of, or a combination of, third-party software applications; and
- Fund pricing and accounting services are outsourced to a third-party administrator (currently BNP Paribas Securities Services).

Henderson risk, compliance and operations teams have access to and use a variety of in-house and third party databases and applications for independent monitoring and risk measurement and compliance purposes.

14.1 Market risk

The fair value of a financial instrument held by the Company may fluctuate due to changes in market prices. This market risk comprises currency risk (see note 14.1.1), interest rate risk (see note 14.1.2) and other price risk, in particular the risk of fluctuations in prices of securities (see note 14.1.3). The Board reviews and agrees policies for managing these risks and agrees investment guidelines and restrictions for managing the portfolio; these have remained substantially unchanged from those applying in the previous year. The Fund Manager assesses the exposure to market risk when making each investment decision, and monitors the overall level of market risk on the whole of the investment portfolio on an ongoing basis. This risk is mitigated through diversification of investments in the portfolio.

14.1.1 Currency risk

A proportion of the Company's assets and income is denominated in currencies other than sterling (the Company's functional currency and the one in which it reports its results). As a result, movements in exchange rates may affect the sterling value of these items. This may be partially offset by borrowing in foreign currencies. The Board regularly reviews currency risk; currently it is not deemed to be material.

14.1.2 Interest rate risk

Interest rate movements may affect:

- the fair value of investments on fixed interest securities;
- the level of income receivable from interest-bearing securities and cash at bank and on deposit; and
- the interest payable on the Company's variable rate borrowings.

Management of the risk

The possible effects of fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment decisions and borrowing under the multi-currency loan facility. The Company generally does not hold significant cash balances; short term borrowings are used when required. The Company finances part of its activities through borrowings at levels approved by the Board. Derivative contracts may sometimes be used to hedge against the exposure to interest rate risk.

Interest rate exposure

The exposure at 31 December of financial assets and financial liabilities to interest rate risk is shown by reference to:

- floating interest rates: when the interest rate is due to be re-set; and
- fixed interest rates: when the financial instrument is due for repayment. These dates are shown on page 53.

Notes to the Financial Statements (continued)

14 Financial risk management policies and procedures (continued)

14.1.2 Interest rate risk (continued)

	2016			2015		
	Within one year £'000	More than one year £'000	Total £'000	Within one year £'000	More than one year £'000	Total £'000
Exposure to floating interest rates:						
Cash at bank	1,742	–	1,742	1,223	–	1,223
Creditors – within one year:						
Borrowings under multi-currency loan facility	(27,822)	–	(27,822)	(25,475)	–	(25,475)
	(26,080)	**–**	**(26,080)**	**(24,252)**	**–**	**(24,252)**
Exposure to fixed interest rates:						
Investments held at fair value through profit or loss	–	26,141	26,141	–	25,220	25,220
Creditors – more than one year:						
Senior unsecured note[1]	(743)	(32,469)	(33,212)	(354)	(33,258)	(33,612)
Total exposure to interest rates	**(26,823)**	**(6,328)**	**(33,151)**	**(24,606)**	**(8,038)**	**(32,644)**

[1] The above figures show interest payable over the remaining term of the senior unsecured note. The figures in the 'more than one year' column also include the capital to be repaid. Details of the repayment are set out on page 51

Interest receivable and finance costs are at the following rates:

- interest received on cash balances, or paid on bank overdrafts, is at a margin linked to LIBOR or its foreign currency equivalent (2015: same);
- interest paid on borrowings under the multi-currency loan facility is at a margin over LIBOR or its foreign currency equivalent for the type of loan. The weighted average interest rate of these was 1.25% at 31 December 2016 (2015: 1.32%);
- interest paid on the senior unsecured note is at a rate of 3.67%; and
- the nominal interest rates on the investments held at fair value through profit or loss are shown on page 8. The weighted average interest rate on these investments is 5.69% (2015: 6.14%).

Interest rate risk sensitivity

The Company is primarily exposed to interest rate risk through its loan facility with Scotiabank, and its fixed interest investment portfolio. The sensitivity of each exposure is as follows:

- loan sensitivity: borrowings vary throughout the year as a result of the Board's borrowing policy. Borrowings at the year end were £27,781,000 (2015: £25,419,000) (see note 12) and if that level of borrowings were maintained for a full year, then a 100 basis points change in LIBOR (up or down) would decrease or increase total return on ordinary activities after taxation by approximately £278,000 (2015: £254,000);
- Senior unsecured note: the senior unsecured note is at a fixed rate of interest so will not be impacted by any changes in LIBOR or short term interest rates; and
- fixed interest investment sensitivity: the Company's fixed interest portfolio at the year end was valued at £26,141,000 (2015: £25,220,000), and it has a modified duration (interest rate sensitivity) of approximately 6.9 years (2015: 7.7 years). A 100 basis points change in short term interest rates (up or down), which is mirrored by an equivalent change in long term interest rates, would be expected to decrease or increase this portfolio's value by approximately £1,804,000 (2015: £1,942,000), all other factors being equal.

14.1.3 Other price risk

Other price risks (changes in market prices other than those arising from interest rate risk or currency risk) may affect the value of quoted and unquoted investments.

Management of the risk

The Board manages the risks inherent in the investment portfolio by ensuring full and timely access to relevant information from Henderson. The Board meets regularly and at each meeting reviews investment performance. The Board monitors Henderson's compliance with the Company's objectives, and is directly responsible for investment strategy and ultimately for asset allocation.

When appropriate, the Company may buy/sell put or call options or futures on indices and on equity investments in its portfolio to manage its exposure to price risk or to generate income. At 31 December 2016 the Company had no open positions (2015: no open positions).

Concentration of exposure to other price risks

An analysis of the Company's investment portfolio is shown on pages 8 and 9. The majority of the investments are in UK companies. Accordingly, there is a concentration of exposure to the UK, and particularly the financial sector (see page 10). It is recognised that an investment's country of domicile or of listing does not necessarily equate to its exposure to the economic conditions in that country.

Notes to the Financial Statements (continued)

14 Financial risk management policies and procedures (continued)

14.1.3 Other price risk (continued)

Other price risk sensitivity

The following table illustrates the sensitivity of the net return after taxation for the year and the equity shareholders' funds to an increase or decrease in the fair values of the Company's investments. The level of change used in the table below is considered to be reasonably possible based on observation of current market conditions. The sensitivity analysis is based on the Company's equities at each statement of financial position date, with all other variables held constant.

	2016		2015	
	10% increase in fair value £'000	10% decrease in fair value £'000	10% increase in fair value £'000	10% decrease in fair value £'000
Income statement – net return after tax				
Revenue return	(41)	41	(38)	38
Capital return	25,213	(25,213)	24,108	(24,108)
Net return after tax for the year	**25,172**	**(25,172)**	**24,070**	**(24,070)**
Equity shareholders' funds	**25,172**	**(25,172)**	**24,070**	**(24,070)**

14.2 Liquidity risk

This is the risk that the Company will encounter difficulty in meeting obligations associated with the financial liabilities.

Management of the risk

Liquidity risk is not significant as the majority of the Company's assets are investments in quoted securities that are readily realisable. The Company has a three year multi-currency loan facility of £30,000,000 with Scotiabank (2015: £30,000,000), due to expire on 30 June 2018, and an overdraft facility with the custodian, the extent of which is determined by the custodian on a regular basis by reference to the value of securities held by it on behalf of the Company.

Liquidity risk exposure

The contractual maturities of the financial liabilities at 31 December, based on the earliest date on which payment can be required, were as follows:

	2016 Due within three months £'000	2015 Due within three months £'000
Bank loans and overdrafts (including accrued interest)	27,781	25,475
Other creditors and accruals	762	2,158
	28,543	**27,633**

14.3 Credit and counterparty risk

The failure of the counterparty to a transaction to discharge its obligations under that transaction could result in the Company suffering a loss.

Management of the risk

The risk is managed as follows:

- transactions involving derivatives are entered into only with investment banks, whose creditworthiness is carefully assessed so as to minimise the risk to the Company of default;
- investment transactions are carried out with a large number of brokers, whose credit standing is reviewed periodically by the Fund Manager, and limits are set on the amount that may be due from any one broker;
- the Company's trades are usually on a delivery versus payment ('DVP') settlement basis. This process mitigates the risk of loss during the settlement process;
- the Board reviews the terms of the Depositary agreement. Henderson monitors the Company's risk by reviewing the Depositary's annual internal controls report and reports to the Board on its findings;
- cash at bank is held only with banks considered to be credit-worthy; and
- with regards to the corporate bonds in the portfolio, there is a credit risk that the borrowers do not repay principal or make interest payments. This is managed through careful selection, supported by monitoring of credit ratings, and is reviewed regularly.

Notes to the Financial Statements (continued)

14 Financial risk management policies and procedures (continued)

14.3 Credit and counterparty risk (continued)

Rating	2016 %	2015 %
A	3.8	9.5
BBB	31.9	25.5
BB	37.2	36.5
B	15.9	13.3
CCC	–	4.0
Not rated	11.2	11.2
Total	**100.0**	**100.0**

Source: Bloomberg (Composite Moody's and S&P).

The percentages above represent the value of fixed interest investments included in the statement of financial position which are exposed to credit and counterparty risk by credit rating.

None of the Company's financial assets or financial liabilities is secured by collateral or other credit enhancements. None of the Company's financial assets is past due or impaired.

14.4 Fair values of financial assets and financial liabilities

The fair values of the financial assets and liabilities are either carried in the statement of financial position at their fair value (investments and derivatives) or the statement of financial position amount is a reasonable approximation of fair value (due from brokers, dividends and interest receivable, due to brokers, accruals, cash at bank, bank overdrafts and amounts due under the multi-currency loan facility). At 31 December 2016 the fair value of the senior unsecured note has been estimated to be £22,224,000 (2015: £19,796,000) and is categorised as Level 3 (see note 14.5) in the fair value hierarchy.

The fair value of the senior unsecured note is calculated using a discount rate which reflects the yield on a UK Gilt of similar maturity plus a suitable credit spread.

14.5 Fair value hierarchy disclosures

The table below sets out fair value measurements using the FRS 102 fair value hierarchy.

Financial assets at fair value through profit or loss at 31 December 2016	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equity investments	226,055	–	–	226,055
Convertibles	794	–	–	794
Fixed interest instruments:				
Preference shares	4,285	–	–	4,285
Other	21,856	–	–	21,856
Total	**252,990**	**–**	**–**	**252,990**

Financial assets at fair value through profit or loss at 31 December 2015	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equity investments	215,543	–	–	215,543
Convertibles	1,149	–	–	1,149
Fixed interest instruments:				
Preference shares	4,051	–	–	4,051
Other	21,169	–	–	21,169
Total	**241,912**	**–**	**–**	**241,912**

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset:

Level 1 – valued using quoted prices in active markets for identical assets;

Level 2 – valued by reference to valuation techniques using observable inputs other than quoted prices included in Level 1; and

Level 3 – valued by reference to valuation techniques using inputs that are not based on observable market data.

The valuation techniques used by the Company are explained in note 1c) on page 46.

There have been no transfers during the year between levels.

Notes to the Financial Statements (continued)

14 Financial risk management policies and procedures (continued)

14.6 Capital management policies and procedures

The Company's capital management objectives are:

- to ensure that it will be able to continue as a going concern; and
- to provide investors with a high dividend income while also maintaining the prospect of capital growth.

The Company's capital is its equity share capital, reserves and debt that are shown in the statement of financial position at a total of £255,310,000 (2015: £242,326,000).

The Board, with assistance of the Fund Manager, monitors and reviews the broad structure of the Company's capital on an ongoing basis. This review includes:

- the planned level of gearing, which takes into account Henderson's view on the market;
- the need to buy back equity shares, either for cancellation or to hold in treasury, which takes account of the difference between the net asset value per share and the share price (i.e. the level of share price discount);
- the need for new issues of equity shares, including sales from treasury; and
- the extent to which revenue in excess of that which is required to be distributed should be retained.

The Company is subject to several externally imposed capital requirements:

- under the bank facility and the senior unsecured note agreement the total of these borrowings may not exceed one third of adjusted total assets (as defined in the facility agreement) and net assets must be more than £50,000,000;
- as a public company, the Company has a minimum share capital of £50,000; and
- in order to be able to pay dividends out of profits available for distribution by way of dividends, the Company has to be able to meet one of the two capital retention tests imposed on investment companies by company law and cannot retain more than 15% of income.

The Company has complied with these requirements.

15 Share capital

	Shares entitled to dividend	Total shares in issue	Nominal value in issue £'000
Issued ordinary shares of 5p each			
At 31 December 2015	111,067,365	111,067,365	5,553
Issued during the year	875,000	875,000	44
At 31 December 2016	**111,942,365**	**111,942,365**	**5,597**

During the year the Company issued 875,000 shares (2015: 2,185,078 shares) for net proceeds of £1,601,000 (2015: £3,949,000). Since the year end no shares have been issued.

Notes to the Financial Statements (continued)

16 Reserves

	Share premium account £'000	Capital redemption reserve £'000	Capital reserve arising on investments sold £'000	Capital reserve arising on revaluation of investments held £'000	Revenue reserve £'000
At 1 January 2016	94,038	26,302	13,551	51,030	6,637
Transfer on disposal of investments	–	–	4,933	(4,933)	–
Net gains on investments	–	–	(416)	11,197	–
Foreign exchange losses	–	–	(1,220)	–	–
Issue of shares	1,557	–	–	–	–
Management and performance fees and finance costs charged to capital	–	–	(1,557)	–	–
Tax relief thereon	–	–	72	–	–
Net revenue after tax for the year	–	–	–	–	11,066
Dividends paid	–	–	–	–	(10,131)
At 31 December 2016	**95,595**	**26,302**	**15,363**	**57,294**	**7,572**

	Share premium account £'000	Capital redemption reserve £'000	Capital reserve arising on investments sold £'000	Capital reserve arising on revaluation of investments held £'000	Revenue reserve £'000
At 1 January 2015	90,198	26,302	7,399	54,304	5,340
Transfer on disposal of investments	–	–	7,551	(7,551)	–
Net gains on investments	–	–	1,170	4,277	–
Foreign exchange losses	–	–	(71)	–	–
Issue of shares	3,840	–	–	–	–
Management and performance fees and finance costs charged to capital	–	–	(2,565)	–	–
Tax relief thereon	–	–	67	–	–
Net revenue after tax for the year	–	–	–	–	10,937
Dividends paid	–	–	–	–	(9,640)
At 31 December 2015	**94,038**	**26,302**	**13,551**	**51,030**	**6,637**

17 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 £207,723,000 (2015: £197,111,000) and on the 111,942,365 ordinary shares in issue at 31 December 2016 (2015: 111,067,365).

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

	2016 £'000	2015 £'000
Net assets at start of year	197,111	188,987
Total net return on ordinary activities after taxation	19,142	13,815
Dividends paid on ordinary shares in the period	(10,131)	(9,640)
Issue of ordinary shares less issue costs	1,601	3,949
	207,723	**197,111**

Notes to the Financial Statements (continued)

18 Contingent liabilities

There were no partly paid shares or underwriting commitments or any other contingent liabilities at 31 December 2016 (2015: nil).

19 Transactions with Henderson

Under the terms of an agreement effective from 22 July 2014 the Company has appointed wholly owned subsidiaries of Henderson Group plc ('Henderson') to provide investment management, accounting, administrative and company secretarial services. Henderson has contracted with BNP Paribas Securities Services to provide accounting and administration services. Details of the management fee arrangements for these services are given in the Strategic Report on page 4.

The total fees paid or payable under this agreement to Henderson in respect of the year ended 31 December 2016 were £1,202,000 (2015: £2,418,000), of which £300,000 was outstanding as at 31 December 2016 (2015: £1,539,000).

In addition to the above services, Henderson has provided the Company with sales and marketing services during the year. The total fees paid or payable for these services for the year ended 31 December 2016 amounted to £67,000 (2015: £54,000), of which £14,000 was outstanding at 31 December 2016 (2015: £14,000).

20 Dividends

The total dividends payable in respect of the financial year which form the basis of the test under Section 1158 of the Corporation Tax Act 2010 are set out below:

	£'000
Revenue available for distribution by way of dividend for the year	11,066
First interim dividend (2.275p) paid on 29 April 2016	(2,531)
Second interim dividend (2.275p) paid on 29 July 2016	(2,531)
Third interim dividend (2.275p) paid on 28 October 2016	(2,542)
Fourth interim dividend (2.325p) paid on 27 January 2017	(2,603)
Undistributed revenue for Section 1158 purposes	**859**

All dividends have been paid or will be paid out of revenue profits.

21 Subsequent events

Since the year end, the Board declared a first interim dividend of 2.325p per ordinary share, in respect of the year ending 31 December 2017. This will be paid on 28 April 2017 to holders registered at the close of business on 7 April 2017. This dividend is to be paid from the Company's revenue account. The Company's shares will go ex-dividend on 6 April 2017.

On 17 March 2017, the Company announced that it had agreed terms with Threadneedle UK Select Trust Limited ('UKT') in respect of the issue of new ordinary shares to shareholders in UKT who elect to roll-over their investment, to be effected by way of a scheme of reconstruction of UKT (the 'Scheme'). The Company intends, in addition to the issue of new ordinary shares in connection with the Scheme, to put in place a prospectus for a 12 month share issuance programme (the 'Issuance Programme'), which will enable the Company to issue further new ordinary shares at a small premium to net asset value, commencing with an initial offer of new ordinary shares at a 1% premium to net asset value to complete at the same time as the Scheme.

It is currently envisaged that a shareholder circular, prospectus and notice of general meeting setting out details of the Scheme and seeking shareholder approval for the Scheme and Issuance Programme will be sent to shareholders at the end of May 2017 and that the Scheme and first issue under the Issuance Programme will become effective by the end of June 2017.

The Scheme will be conditional on, amongst other things, the recommendation of the Boards of both companies, the necessary shareholder approvals by the shareholders of both companies and the appropriate regulatory and tax approvals in due course.

General Shareholder Information

AIFMD disclosures

In accordance with the Alternative Investment Fund Managers Directive ('AIFMD'), information in relation to the Company's leverage and remuneration of Henderson, as the Company's Alternative Investment Fund Manager ('AIFM') are required to be made available to investors. These disclosures, including those on the AIFM's remuneration policy, are contained in a Key Investor Information Document ('KIID') which can be found on the Company's website: **www.hendersonhighincome.com**.

BACS

Dividends can be paid by means of BACS ('Bankers' Automated Clearing Services'); mandate forms for this purpose are available from the Registrar, Computershare Investor Services PLC. Alternatively, shareholders can write to the Registrar (the address is given on page 16) to give their instructions; these must include the bank account number, the bank account title and the sort code of the bank to which payments are to be made.

Common Reporting Standard for Automatic Exchange of Financial Account Information

Tax legislation under The Organisation for Economic Co-operation and Development Common Reporting Standard for Automatic Exchange of Financial Account Information was introduced with effect from 1 January 2016. The legislation requires the Company to provide personal information to HMRC on certain investors who purchase shares in investment trusts. This information will have to be provided annually to the local tax authority of the tax residencies of a number of non-UK based certificated shareholders and corporate entities.

Equality Act 2010

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

You can contact the Registrar, Computershare Investor Services PLC, which has installed textphones to allow speech and hearing impaired people who have their own textphone to contact them directly, without the need for an intermediate operator by dialling 0370 702 0005. Specially trained operators are available during normal business hours to answer queries via this service.

Alternatively, if you prefer to go through a 'typetalk' operator (provided by the Royal National Institute for Deaf People) dial 18001 followed by the number you wish to dial.

Foreign Account Tax Compliance Act ('FATCA')

FATCA is a United States federal law enacted in 2010 whose intent is to enforce the requirement for United States persons (including those living outside the U.S.) to file yearly reports on their non-U.S. financial accounts. As a result of HMRC's change of interpretation on the meaning of shares and securities 'regularly traded on an established securities market', investment trusts now need to monitor each year the trading volume and frequency of their shares and securities to assess whether they have financial accounts. The Company will therefore need to make an annual assessment, before the FATCA return is due, to determine if the shares represent financial accounts and, where they do, will need to identify and report U.S. reportable accounts to HMRC, as required.

ISA

The Company intends to continue to manage its affairs in order to qualify as an eligible investment for a stocks and shares ISA.

The Company is listed on the London Stock Exchange and shares can be purchased or sold via a stockbroker, bank or other agent authorised to act in this regard. Investing is easy with Henderson's partners. Choose which account is right for you and then give your trading instructions online or by phone. These are:

- AJ Bell YouInvest (www.youinvest.co.uk)
- Alliance Trust Savings (www.alliancetrustsavings.co.uk)
- Barclays Stockbrokers (www.barclaysstockbrokers.co.uk)
- Halifax Share Dealing (www.halifax.co.uk/sharedealing)
- Hargreaves Lansdown (www.hl.co.uk/shares/share-dealing)
- Interactive Investor (www.iii.co.uk/investing)
- Selftrade (www.selftrade.co.uk)
- TD Direct Investing (www.tddirectinvesting.co.uk)
- The Share Centre (www.share.com)

A number of other providers can be found at **www.thewma.co.uk**; each provider will charge fees according to their terms and conditions.

Non-mainstream pooled investments status

The Company currently conducts its affairs so that its ordinary shares of 5p each can be recommended by IFAs to ordinary retail investors in accordance with the Financial Conduct Authority's ('FCA') rules in relation to non-mainstream investment products and intends to continue to do so for the foreseeable future. The shares are excluded from the FCA's restrictions which apply to non-mainstream investment products because they are shares in an investment trust.

General Shareholder Information (continued)

Performance details/share price information

Details of the Company's share price and NAV per share can be found on the website **www.hendersonhighincome.com**. The Company's NAV is published daily.

Share price listings

The market price of the Company's ordinary shares is published daily in the Financial Times and the Telegraph, which also shows figures for the estimated net asset value ('NAV') per share.

The market price of the Company's shares can be found in the London Stock Exchange Daily Official List.

Shareholder details

Shareholders who hold their shares in certificated form can check their shareholding with the Registrar, Computershare Investor Services PLC, via **www.computershare.com**. Please note that to gain access to your details on the Computershare site you will need the holder reference number shown on your share certificate.

Warning to shareholders

Many companies are aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas based 'brokers' who target UK shareholders offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. They can be very persistent and extremely persuasive. Shareholders are therefore advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports.

Please note that it is very unlikely that either the Company or the Company's Registrar, Computershare Investor Services PLC, would make unsolicited telephone calls to shareholders. Any such calls would relate only to official documentation already circulated to shareholders and would never offer investment 'advice'.

If you are in any doubt about the veracity of an unsolicited phone call, please call the Corporate Secretary at the number provided on page 16.

Henderson High Income Trust plc
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Registered office: 201 Bishopsgate, London EC2M 3AE

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Legal Entity Identifier number (LEI): 213800OEXAGFSF7Y6G11

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