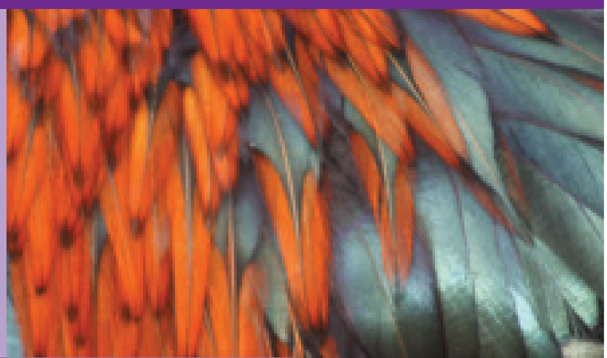
Henderson Diversified Income Limited

Report and Financial Statements for the year ended 31 October 2012



Objective

The Company's investment objective is to provide shareholders with a high level of income and capital growth over the longer term. The Company aims to deliver these outcomes by investing selectively across the full spectrum of fixed income asset classes including secured loans, high yield corporate bonds and investment grade corporate bonds.

The Manager is incentivised to provide shareholders with ongoing total returns of at least three month sterling LIBOR plus 1.25%.

History

Henderson Diversified Income Limited is a Jersey domiciled closed-ended investment company and was incorporated on 5 June 2007 and launched with £40.5 million of capital on 18 July 2007. The Company raised an additional £38.4 million in a placing of shares in May 2008. It is listed on the main market of the London Stock Exchange. The Company has an indefinite life and has a single class of ordinary shares of no par value. Dividends are paid quarterly.

Contents

Financial Highlights

	31 October 2012 **£'000**	**per share**	31 October 2011 £'000	per share
Net asset value	**69,647**	**83.3p**	65,446	78.2p
Market price	**–**	**80.2p**	–	76.8p

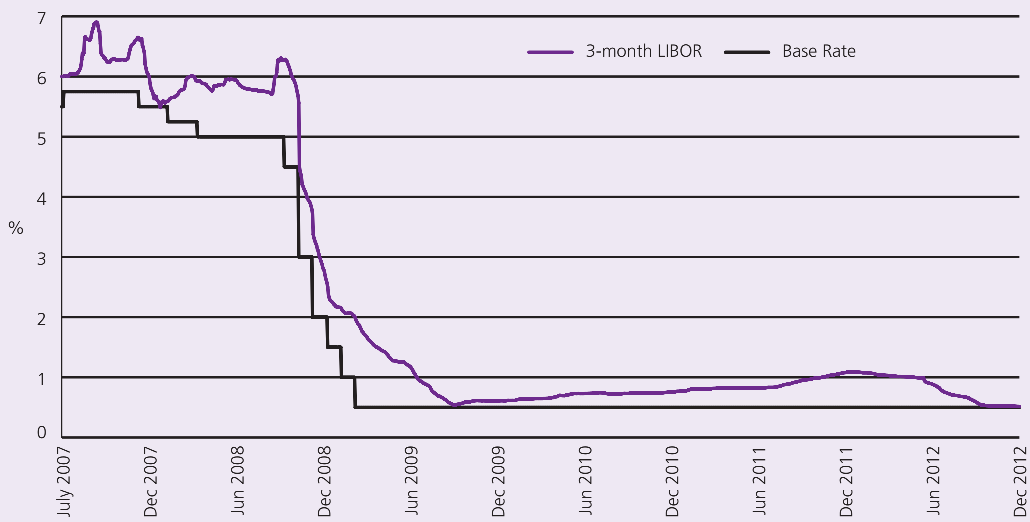
	Year ended 31 October 2012 **£'000**	**per share**	Year ended 31 October 2011 £'000	per share
Revenue earnings (based on weighted average number of shares)	**4,529**	**5.41p**	4,319	5.16p
Dividends (paid and payable)	**4,183**	**5.00p**	4,016	4.80p

Performance

	Year to 31 October 2012
Net asset value (total return)	**13.5%**
Share price (total return)	**11.4%**

Source: Morningstar for the AIC

Movement in 3-month LIBOR and UK Base Rates (from launch to 31 December 2012)

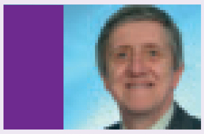


Source: Bloomberg

Directors


Paul Manduca


Helen Green


Nigel Parker


David Smith

Paul Manduca (Chairman) Following a long career in asset management as both a fund manager and CEO of fund management groups including Threadneedle Asset Management and Deutsche Asset Management Europe, Paul is now Chairman of Prudential Group plc. He is also a former Chairman of Aon UK and of Bridgewell Group plc, a former Senior Independent Director of Wm Morrison Supermarkets plc and of Development Securities plc and was also previously a director of JP Morgan European Smaller Companies Investment Trust plc. He is a past Chairman of the Association of Investment Companies.

Helen Green is a chartered accountant and has been employed by Saffery Champness, a UK top 20 firm of accountants, since 1984. She became a partner in 1997. Since 2000 she has been based in the Guernsey office where she is a client liaison director responsible for trust and company administration. Mrs Green serves as a non-executive director on the boards of a number of companies in various jurisdictions, including Landore Resources Limited, Tamar European Industrial Fund Limited, Advance Frontier Markets Limited, and Acorn Income Fund Limited, of which she is Chairman.

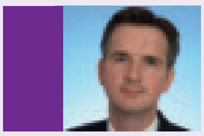
Nigel Parker has over 35 years' experience in the Jersey finance industry and in 2004 was appointed Chief Executive Officer of Gartmore Fund Managers International Limited. He has held a number of positions with Jersey trust companies but specialises in compliance and regulation. In 2002 he was appointed Head of European Compliance for the Gartmore Group with compliance responsibility for all offices, services and products within Europe. Mr Parker is a registered Trust and Estate Practitioner (TEP) and a former committee member of the Jersey Funds Association. He is a member of the Jersey Compliance Officers' Association.

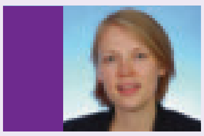
David Smith has spent his career in the financial services sector. He has worked in retail banking with National Westminster Bank, in unit trust sales for County Bank and fund management sales for Ivory & Sime. He became Marketing Director of Fleming Investment Trust Management in 1991, during a period of much increased interest in the investment trust sector, before returning to Jersey to help establish Flemings' private banking operations in Jersey. He was appointed Managing Director of Dexia Private Bank in Jersey in 1999 and subsequently took overall responsibility for all Dexia's operations in Jersey. He now acts as a consultant to a number of local businesses. Mr Smith is an Associate of the Chartered Institute of Bankers, a member of the Chartered Institute of Marketing and holds the Certificate in Company Direction.

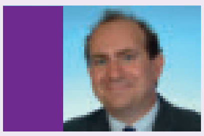
All of the directors are non-executive and are members of the Audit Committee and Nominations Committee. Other than Nigel Parker, all the directors are members of the Management Engagement Committee.

Paul Manduca chairs the Management Engagement Committee and the Nominations Committee and Helen Green chairs the Audit Committee. Helen Green and Nigel Parker are also directors of the Luxembourg subsidiary.

Management


John Pattullo


Jenna Barnard


David Milward

The portfolio is managed by John Pattullo and Jenna Barnard.
The Company's investments in secured loans are managed by David Milward and his team.

Chairman's Statement

Paul Manduca

I am pleased to report that your Company's net asset value total return for the year was 13.5% and the share price total return was 11.4%. In addition the total annual dividend rose 4.2% to 5.0p despite the fall in interest rates over the year. Global economic data continues to be disappointing and it now seems clear that low interest rates will persist for some time. Governments, banks, corporates, and individuals are all continuing to de-leverage irrespective of the low cost of borrowing. That said, volatility in credit markets has reduced as investors have taken a more realistic view on defaults and this has led to some capital improvement over the year.

Performance

Your Company's net asset value increased from 78.2p to 83.3p over the year and the share price increased from 76.8p to 80.2p over the same period. Revenue earnings per share rose 4.8% to 5.41p per ordinary share as the net return from increased gearing exceeded the revenue effect of lower levels of LIBOR and Euribor. For the year under review a performance fee of £606,000 is payable as a consequence of the Company's net asset value total return exceeding the benchmark target of LIBOR plus 1.25%. This takes account of all prior year underperformance and is the first year in which the fee has been paid.

Dividends and Dividend Policy

Over the year under review, three month sterling LIBOR fell from 0.99% to 0.53% and three month Euribor fell from 1.59% to 0.20%. Our income target is 1.25% over sterling three month LIBOR, equating to 1.78% at 31 October 2012. For the year under review four dividends each of 1.25p per share have been paid, making a total of 5.0p, which equates to a yield of 6.2% at the year end share price of 80.2p; beating the income target comfortably. At the year end the revenue reserve represented 1.0p per share.

Gearing

At the year end borrowings were £7.8m, up from £6.9m at the previous year end meaning your Company was 11.2% geared compared to 10.5% at the prior year end. In addition, your portfolio was geared by a further 13.5% due to exposure to credit default swaps. Your Board reviews regularly the level of gearing, the conditions for which are currently very favourable.

Distributions from capital profits

Following a recent relaxation to UK rules many onshore investment trusts and companies are seeking authority to amend their Articles of Association to permit a distribution of capital profits. Your Company's Articles do not prohibit the making of such distributions, but your Board has never exercised this right. Your Board now intends to use this right for two principal reasons: to provide additional flexibility in relation to dividend payments, though there is no present intention to do so; and to facilitate share issuance on an ad hoc basis. If the Company were to issue shares without some capital distribution it would risk diluting the Company's revenue reserves. By paying dividends out of capital profits this is no longer a concern because the premium to NAV at which new shares are issued can be used to benefit the revenue account and appropriately compensate existing shareholders. The advantage of issuing shares is that it provides liquidity to the market, should help regulate a premium rating and lead to a larger company, which will spread fixed costs.

Outlook

Having enjoyed good returns from our corporate bond portfolio over the last few years, falling bond yields mean that corporate bonds are becoming less attractive than both secured loans and, in some cases, equities. Consequently, our allocation to secured loans and equities will be increased at the expense of bonds as opportunities arise. The equity portfolio will be subject to an absolute limit of 10% of the portfolio and will be focussed on quality blue chip stocks that offer the right combination of yield and capital growth opportunity. Your Board believes that the ability to make these asset allocation shifts is a key attraction of your company.

It seems almost inevitable that interest rates will remain substantially unchanged over the coming year. That said, your Board is confident that the level of distributable income can be at least maintained and possibly grown over the year.

Annual General Meeting

Our sixth Annual General Meeting will be held on Friday 15 March 2013 at 11.00 a.m. at our registered office in Jersey. As in previous years an open presentation to shareholders, including the opportunity to meet the Portfolio Managers, will be held on Tuesday 19 March 2013 at 10.30 a.m. at Henderson's offices in London.

Paul Manduca,
Chairman
7 February 2013

Managers' Report

John Pattullo and Jenna Barnard

In concluding our report last year we noted that the scale of sovereign market turmoil was such that "markets are demanding a major policy response from the European Central Bank" ('ECB'). At the time it felt as though only the ECB could act with sufficient size and credibility to prevent a serious downward spiral amongst the region's peripheral sovereigns and their financial institutions. The ECB did not disappoint. In December of 2011 it announced unlimited money in the form of three year LTROs (long term refinancing operations) to support bank funding and prevent serious liquidity issues amongst the continent's banks. This provided the fuel for risk assets to rally during the first quarter of 2012 only to fall again once fundamental concerns about the underlying solvency of Spanish banks and the results of an indecisive first Greek election came into focus in the second quarter of 2012. This in turn prompted an even more significant shift from the ECB when it fleshed out in September the OMT (Outright Monetary Transactions) policy. The OMT allows for potentially unlimited purchases of short-dated peripheral government bonds in order to fix a broken monetary transmission mechanism. This was a technical justification for the ECB to potentially do something which it had previously considered an anathema for central bankers – buying government bonds in significant quantity.

From the above it can be seen that the year under review was yet another characterised by bouts of panic followed by periods of calm. Volatility and uncertainty were its hallmarks. Nevertheless, looking back there is no doubt that significant progress in crisis response has been made by the ECB which did eventually act with pragmatism rather than monetary dogma. This has been critical in providing a backstop against a disorderly meltdown in markets. The progress of sovereigns enacting structural reform to economies and implementing harsh austerity plans will inevitably be much more difficult and take significant amounts of time as well as political capital. Clearly this is not a problem exclusive to the Eurozone with the UK also subject to notable fiscal disappointment during the year. Indeed as the period under review came to a close, the market's attention had turned to the potential "fiscal cliff" in the USA and its government's ability to craft a deficit reduction strategy. Fears related to this event yet again caused risk assets to falter and placed further pressure on already struggling economic recoveries around the world.

With this backdrop we are pleased to report that the Company's net asset value exhibited a sustained upward progression from the end of November 2011 through to the year end date of 31 October 2012. Indeed the Company's assets which are invested in various credit markets did not possess the high volatility that they had during previous equity market downturns in the last few years. This did not reflect an asset allocation shift within the company but rather a growing recognition amongst market participants that default risk really had subsided and the European banking system was not on the verge of collapse as a result of the ECB's actions. Credit markets are extremely sensitive to systemic risk and so reacted particularly positively to these actions. At the end of the Company's report last year we noted that "credit markets are pricing in…severe assumption about defaults and so risk taking is being rewarded at current yield levels". In retrospect it is clear that the bout of volatility had resulted in credit markets becoming deeply oversold and fundamentally cheap. The fundamental backdrop of slow but not disastrous economic growth and a focus on corporate balance sheet repair continue to provide a supportive environment for bond investing. Traditionally bond investors worry about interest rate rises or corporations taking on too much debt (both of which can cause falls in the value of their bonds) but in the current environment this has not been a concern.

The challenge for the Company has come from a different source – the very low levels of interest rates across the developed world. This has clearly been the monetary policy response to the stagnant growth environment.

Managers' Report

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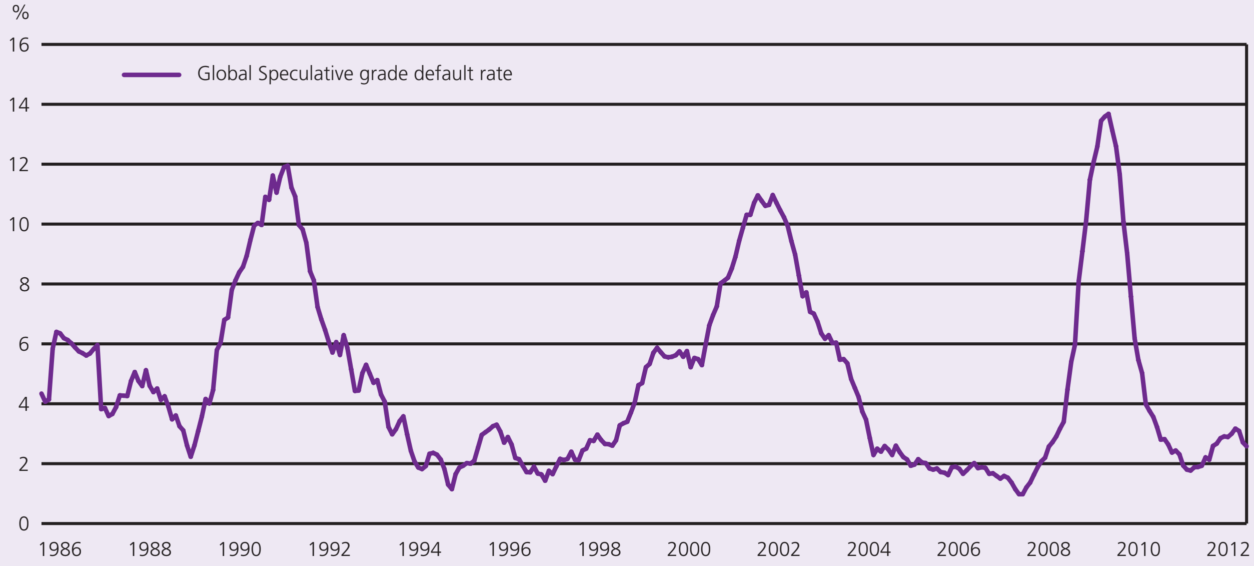
Default Rates



Source: Moody's, as at 31 December 2012

Low interest rates have meant low LIBOR (London Interbank Offered Rate) from which the Company's income target is derived (Sterling LIBOR + 125bp). Thus the income target has fallen to the very low levels of 1.78% as of the year end. Happily we can report that the actual dividend distributions have significantly exceeded this target with 5.0p per share having been paid out in the four quarterly distributions. In addition the Company has built up a revenue reserve of 1.0p per share. The significant outperformance in respect of income reflects the considerable weighting in fixed rate bonds which have offered attractive yields relative to the floating rate income provided by the allocation to loans which have fallen with LIBOR.

Secured Loan Portfolio

The European Secured Loan market showed remarkable resilience over the year, despite the wider volatility seen across financial markets. The low point for the year proved to be November 2011, when the average loan price had dipped to 84.3, but since then the market rallied with the average price rising to 88.3 by year end. Overall the loan market as measured by the Credit Suisse Western European Leveraged Loan Index returned 8.4% over the year.

A key driver of returns over the period has been the level of refinancing activity undertaken, which has resulted in a number of discounted loans being repaid at par. Within the portfolio, loans issued by Deutsch Connectors (France, engineering) and Stork (Netherlands, engineering) were repaid in full as a result of corporate finance activity, with Deutsch Connectors being sold and Stork being refinanced through a combination of the loan and high yield markets.

In view of our broader concerns about the economic outlook for Europe, we have looked to reduce exposure to cyclical industries and therefore exited positions in Materis (France, building materials) and Kion (Germany, engineering). These positions have been replaced by loans to borrowers in more stable sectors including RAC (UK, roadside assistance).

Primary issuance in the loan market has been somewhat muted, but new transactions continue to be attractively priced, typically offering a coupon of around LIBOR+5%. We also continue to see attractive opportunities to add loans to the portfolio that are priced at a modest discount to par and which have the potential to generate capital appreciation given we would expect to see these positions repaid at par ahead of scheduled maturity. Positions added during the period at a discount include TDF (France, infrastructure) and Jack Wolfskin (Germany, retail).

It is clear that the outlook for certain sectors remains difficult and we have seen a modest decline in corporate profitability

Managers' Report

continued

in recent months reflecting weak demand and low consumer confidence across Europe. Overall, we would expect default rates in the European Loan Market to remain at relatively low levels given the majority of businesses have been able to address any short term refinancing needs.

The portfolio is positioned towards non-cyclical sectors and we will continue to focus on fundamental credit analysis and maintain our quality bias. We believe at current levels loans continue to offer an attractive risk reward even in the face of economic uncertainty as they blend a high coupon with downside protection through being senior to claims of other creditors, secured on assets and protected by performance based covenants.

Bond Portfolio

The bond weighting has also delivered strong capital performance for the company. Stand out performers during the year were the holdings in financial bonds (both insurers and UK banks) as well as the high yield corporate bonds. Both benefited from a general improvement in risk appetite but the financials also performed well due to the re-regulation of the sector which is making these bonds less appealing to the institutions. As a result there has been a trend to repurchase existing bonds at a premium to the market price, shrinking the available number of these bonds in which to invest and driving other prices higher.

Outlook

As we look across your Company's available asset classes, we are seeing a shift in the potential return outlook which for the first time in over three years encourages us to make a significant asset allocation shift. This is because yields in the corporate bond market have been dragged down by government bond yields which have fallen to very low levels as a consequence of central banks pursuing unconventional monetary policies. As a result, room for any further capital appreciation in the bond market, in which your Company has over 50% of its assets invested, looks limited from here. Although there are still pockets of opportunity within the corporate bond market (banking and insurance bonds for example), as a general observation we are beginning to see higher yields on offer in the senior secured loan market than we do in the subordinated bond market. This is an unusual situation and one which in a low default environment justifies a greater allocation to loans than we have run in the past three years when bonds offered higher yields. In addition, having a higher percentage of the Company in floating rate loans will also benefit the Company as and when interest rates begin to rise, as the income from this asset class will rise at the same time. Selective high yielding equity shares are also looking good value relative to the bond market in both income and capital terms and we shall continue to use our flexible mandate to opportunistically add modest exposure to this area of the market up to a maximum of 10% of the portfolio. Being able to asset allocate in this way is the great strength of your Company's diversified income policy as it allows the Company to focus on sustaining, and where possible increasing, the dividend by pursuing the best return opportunities wherever they may present themselves within markets.

John Pattullo and Jenna Barnard
Portfolio Managers
7 February 2013

Investment Portfolio

as at 31 October 2012

Secured Loans

These are loans entered into by companies and are typically at the most senior level of the capital structure, and are often secured by specific collateral including, but not limited to, trademarks, patents, accounts receivable, stock, equipment, buildings, real estate, franchises and the ordinary and preferred shares of the obligor and its subsidiaries. They are generally issued to finance internal growth, acquisitions, mergers, or share purchases. As a result of the additional debt incurred by the borrower in the course of the transactions, the borrower's creditworthiness would be judged by the rating agencies to be below investment grade. Some secured loans may be subordinated to other obligations of the borrower. Secured loans are not listed, but are, in normal market conditions, readily bought and sold. In periods of market turbulence, however, the liquidity of the market for such investments may be reduced.

Investments by value	Currency	Country	Industry	Market value £'000	% of portfolio
Alliance Boots	**£**	**UK**	**Retail**	**1,937**	**2.49**
Vue	**£**	**UK**	**Leisure**	**1,640**	**2.11**
RBS Worldpay	**£**	**UK**	**Card services**	**1,617**	**2.08**
ISS	**Euro**	**Denmark**	**Business services**	**1,544**	**1.99**
Lavena	**Euro**	**Germany**	**Media**	**1,502**	**1.93**
Weetabix	**£**	**UK**	**Beverages, food & tobacco**	**1,489**	**1.92**
Towergate	£	UK	Insurance	1,443	1.86
Polyconcept	Euro	France	Business services	1,429	1.84
RAC	£	UK	Commercial services	1,395	1.79
Gala Clubs	£	UK	Leisure	1,309	1.68
Springer	Euro	Germany	Publishing	1,283	1.65
Flint	Euro	Germany	Chemicals, plastics & rubber	1,275	1.64
Delachaux	Euro	France	Transportation equipment	1,216	1.56
Ahlsell	Euro	Sweden	Business Services	1,205	1.55
TNT Logistics	US$	UK	Logistics	1,149	1.48
Jack Wolfskin	Euro	Germany	Retail	1,123	1.44
Xerium	Euro	USA	Paper & publishing	1,074	1.38
Foncia	Euro	France	Property management	1,000	1.29
Birds Eye	£	UK	Beverages, food & tobacco	1,000	1.29
Merlin	£	UK	Leisure	989	1.27
Northgate	£	UK	Business services	939	1.21
Firth Rixon	£	UK	Engineering	871	1.12
Lawson	Euro	USA	Software	865	1.11
Macquarie	£	UK	Telecommunications	850	1.09
Autobar	Euro	Netherlands	Vending machines	799	1.03
Avio	Euro	Italy	Aerospace	786	1.01
Travelport	Euro	USA	Travel services	759	0.98
Wind	Euro	Italy	Telecommunications	741	0.95
TDF	Euro	France	Telecommunications	733	0.94
Technicolour	Euro	France	Media	632	0.81
Oberthur	US$	France	Technology security services	615	0.79
Takko	Euro	Germany	Retail	588	0.76
Linpac	Euro	UK	Packaging	574	0.74
Numericable	Euro	France	Broadcasting	546	0.70
Formula 1	US$	UK	Media	535	0.69
BSN Medical	Euro	Germany	Healthcare	403	0.52
Infonxx	Euro	USA	Business services	370	0.48
Grifols	US$	Spain	Healthcare	354	0.46
IMS	Euro	USA	Healthcare	303	0.39
Wood Mackenzie	£	UK	Corporate services	302	0.39
La Seda	Euro	Spain	Chemicals, plastics & rubber	168	0.22
WDAC	Euro	Netherlands	Directories	57	0.07
Total Secured Loans				**39,409**	**50.70**

All of the above investments would in Henderson's view, if rated, be BB+ or lower.

Investment Portfolio

continued

High Yield Bonds

These bonds are considered more risky than investment grade bonds and as a result have to pay much higher coupons to attract investors. They generally mature in ten years or less and are less sensitive to interest rate changes than other bonds.

They are rated below BBB- (by Standard & Poor's, Moodys or a similar recognised rating agency). This rating signifies a higher risk of default compared to an investment grade bond.

Investments by value	Currency	Country	Industry	Market value £'000	% of portfolio
Convatec Healthcare	**Euro**	**Luxembourg**	**Healthcare**	**1,787**	**2.30**
Smurfit Kappa	**Euro**	**Ireland**	**Paper & packaging**	**1,634**	**2.10**
William Hill	**£**	**UK**	**Gaming & betting**	**1,505**	**1.94**
Unity Media	Euro	Germany	Cable TV	1,447	1.86
Ziggo	Euro	Netherlands	Cable TV	1,323	1.70
Ladbrokes	£	UK	Gaming & betting	1,108	1.43
Daily Mail & General Trust	£	UK	Publishing	1,097	1.41
Lloyds Group	£	UK	Diversified banking	1,059	1.36
Heidelberg Cement	Euro	Germany	Building services	961	1.24
ITV	£	UK	Media	923	1.19
Virgin Media	£	UK	Cable TV	773	0.99
Levi Strauss	Euro	USA	Apparel	748	0.96
Matterhorn	CHF/Euro	Luxembourg	Telecommunications	745	0.96
UPC	Euro	Netherlands	Cable TV	642	0.83
Digicel	US$	Caribbean	Telecommunications	508	0.65
HCA	US$	USA	Healthcare	495	0.64
Sunrise Communications	Euro	Switzerland	Telecommunications	483	0.62
Investec	£/Euro	UK	Diversified financial services	436	0.56
Rexam	Euro	UK	Packaging	415	0.53
Eco-Bat	Euro	UK	Metals	405	0.52
Rexel	Euro	France	Electrical parts distribution	405	0.52
Kabel BW	Euro	Germany	Cable TV	387	0.50
Infor	Euro	USA	Software	335	0.43
Telenet	Euro	Luxembourg	Cable TV	289	0.37
Interxion	Euro	Netherlands	IT services	280	0.36
Odeon	£	UK	Leisure	280	0.36
Cabot Financial	£	UK	Credit services	279	0.36
Ardagh Glass	Euro	Ireland	Packaging & containers	262	0.34
Techem	Euro	Germany	Consumer services	255	0.33
Iron Mountain	US$	USA	Business services	248	0.32
Care UK	£	UK	Healthcare	245	0.32
Anglian Water	£	UK	Water	217	0.28
Nordenia Holdings	Euro	Germany	Packaging & containers	170	0.22
National Westminster	£	UK	Diversified banking	157	0.20
Dufry	US$	USA	Retail	126	0.16
ISS	Euro	Denmark	Business services	125	0.16
GCL	Euro	Luxembourg	Rubber & plastic products	117	0.15
SBA Communications	US$	USA	Telecommunications	113	0.15
Picard	Euro	France	Food & beverages	111	0.14
Albéa Beauty	Euro	Luxembourg	Packaging & containers	99	0.13
F&C Asset Management	£	UK	Diversified financial services	48	0.06
Total High Yield Bonds				**23,042**	**29.65**

Investment Portfolio

continued

Investment Grade Bonds

These bonds pay a higher rate of interest than government bonds, known as the spread, to reflect the higher risk. Investment grade bonds are at the lower risk/lower return end of the corporate bond market and are typically issued by blue chip companies. They are rated BBB- and above (by Standard & Poor's, Moodys or a similar recognised rating agency). This rating signifies that historically such bonds suffer relatively low rates of default.

Investments by value	Currency	Country	Industry	Market value £'000	% of portfolio
Heathrow	**£**	**UK**	**Transportation**	**1,678**	**2.16**
Standard Life	£/Euro	UK	Insurance	1,438	1.85
Barclays	£	UK	Diversified banking	1,251	1.61
Legal & General	£	UK	Insurance	1,208	1.55
BUPA	£	UK	Insurance	1,155	1.48
Royal Bank of Scotland	£	UK	Diversified banking	1,039	1.34
Royal London	£	UK	Insurance	996	1.28
RWE	£	Germany	Electric	962	1.24
Friends Life	£	UK	Insurance	739	0.95
Dong	Euro	Denmark	Electric	728	0.94
BG Energy	£	UK	Gas	541	0.70
F&C	£	UK	Diversified financial services	419	0.54
Aquarius (SwissRe)	US$	Switzerland	Insurance	385	0.49
Royal Sun Alliance	£	UK	Insurance	361	0.46
Co-operative Bank	£	UK	Diversified banking	341	0.44
Nationwide Building Society	£	UK	Diversified banking	340	0.44
Glencore	US$	Switzerland	Basic materials	235	0.30
Prudential	US$	UK	Insurance	107	0.14
Total Investment Grade Bonds				**13,923**	**17.91**

Some of the above investment grade financial bonds trade as bonds but are considered perpetual, non step up preferred securities.

Investment Portfolio

continued

Equities

Investments by value	Currency	Country	Industry	Market value £'000	% of portfolio
Vodafone	£	UK	Telecommunications	673	0.87
Scottish & Southern Energy	£	UK	Utilities	579	0.75
British Vita	Euro	UK	Chemicals, plastics & rubber	97	0.12
Total Equities				**1,349**	**1.74**
Total Investments				**77,723**	**100.00**

Those investments shown in **bold** on pages 7 to 10 are the ten largest investments which by value account for £16,333,000 or 21.02% of the total value of investments (2011: 21.99%).

Report of the Directors

The Directors present the audited financial statements of the Group and their report for the year ended 31 October 2012. The Group comprises Henderson Diversified Income Limited ('the Company') and its wholly owned subsidiary undertaking, Henderson Diversified Income (Luxembourg) s.à.r.l.. The Company commenced trading on the London Stock Exchange on 18 July 2007.

Business Review

The following review is designed to provide information primarily about the Group's business and results for the year ended 31 October 2012. It should be read in conjunction with the Chairman's Statement on page 3 and with the Managers' Report on pages 4 to 6 which give a detailed review of the investment activities for the year and an outlook for the future.

a) Status

The Company is registered with limited liability in Jersey as a closed-ended investment company under the Companies (Jersey) Law 1991 with registered number 97669. In addition, the Company constitutes and is certified as a Collective Investment Fund under the Collective Investment Funds (Jersey) Law 1988. The Company has obtained a Fund Certificate under Article 7 of the Jersey Funds Law from the Jersey Financial Services Commission to operate as a Certified Fund within the Island of Jersey.

The Company is a member of the Association of Investment Companies ('AIC').

The Company intends to continue to manage its affairs so that its shares fully qualify for inclusion in an Individual Savings Account ('ISA').

b) Investment objective and policy

The Company's investment objective is to provide shareholders with a high level of income, capital growth over the long term and capital preservation over all periods.

The Company aims to deliver these investment outcomes for shareholders by investing selectively across the spectrum of fixed income asset classes; principally in secured loans, asset-backed securities, investment grade corporate bonds and high yield corporate bonds, but also in unrated bonds, gilts, preference and selective high yield equity shares, hybrid securities, convertible bonds and floating rate notes.

The portfolio is not managed by reference to any benchmark save for an income target of 1.25% over sterling three month LIBOR. The composition of the portfolio is therefore not constrained by concepts such as the size, sector or national origin of the issuer. The Company may use credit derivatives (including credit default swaps) in addition to interest rate futures and interest rate swaps. Both the credit derivatives and the interest rate derivatives are used in order to take a synthetic exposure to, or to hedge, an investment position where the derivative contract is more efficient or cost effective than a position in the underlying physical asset. The Company's exposure to credit derivatives is capped at a maximum net long or short position of 30% of the Company's net assets. The interest rate exposure of the Company is currently managed in a range of between 0 and 8 years.

The Company may employ gearing to enhance investment returns but borrowings may not exceed 30% of net assets.

c) Financial Review

Results for the year

Net assets as at 31 October 2012 amounted to £69.647 million (2011: £65.446 million) and the net asset value per ordinary share was 83.3p (2011: 78.2p).

At 31 October 2012 there were 104 (2011: 99) separate investments, as detailed in the Investment Portfolio on pages 7 to 10.

Group net revenue after taxation for the year was £4.529 million (year ended 31 October 2011: £4.319 million).

Ongoing charges

Ongoing charges are 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 investment company as a collective fund, excluding the costs of acquisition or disposal of investments, financing charges and gains or losses arising on investments. Ongoing charges are based on actual costs incurred in the year as being the best estimate of future costs. The Board reviews the ongoing charges and monitors the expenses incurred by the Company.

The Company previously disclosed a Total Expense Ratio; under recommendation of the AIC the terminology and methodology has been changed to ensure consistency of

Report of the Directors
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approach and calculation across the investment company sector and UCITS funds.

For the year ended 31 October 2012 the ongoing charge was 1.46% (2.38% including the performance fee) (2011: 1.42%).

Dividends
It is the intention of the Company to continue to make distributions in the form of quarterly dividends payable in March, June, September and December each year. Three interim dividends have been paid: 1.25p per share on each of 30 March, 29 June and 28 September 2012. A fourth interim dividend of 1.25p per share in respect of the period ended 31 October 2012 was paid on 31 December 2012. For the year under review the Company exceeded its target dividend yield of 1.25% over sterling three month LIBOR.

The Company's Articles do not prohibit the Company from making a distribution from capital profits, should the Directors decide to do so.

Bank facilities and gearing
The Board has in place facilities which allow it to borrow up to £25.5 million (£15.5 million with an additional £10 million commitment being available) for periods of one, two, three or six months. The facilities are subject to regular review. At 31 October 2012 the Group had drawn down £7.8 million (2011: £6.9 million). The maximum drawn down in the period was £9.6 million, with borrowing costs including interest for the year totalling £0.2 million. At 31 October 2012, the ratio of borrowings under the facilities to net assets was 11.2% (2011: 10.5%).

Payment of suppliers
It is the payment policy of the Company for the financial year to 31 October 2013 to obtain the best possible terms for all business and, therefore, there is no single policy as to the terms used. In general, the Company agrees with its suppliers the terms on which business will take place and it is the Company's policy to abide by such terms. There were no trade creditors as at 31 October 2012 (2011: none).

Future developments
While the future performance of the Company will depend, to some degree, on macro-economic factors and on the performance of international financial markets, which, in turn, are subject to many external factors, the Board's intention is that the Company will continue to pursue its stated investment objective in accordance with the strategy outlined earlier. Further comments on the outlook for the Company for the next twelve months are set out in both the Chairman's Statement (on page 3) and the Managers' Report (on pages 4 to 6).

Statement of Going Concern
The Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the financial statements as the assets of the Group consist mainly of securities which are readily realisable and, accordingly, the Group has adequate financial resources to continue in operational existence for the foreseeable future. In reviewing the position as at the date of this report, the Board has considered the going concern and liquidity risk 'Guidance for Directors of UK Companies 2009' issued by the Financial Reporting Council in October 2009.

d) Performance measurement and key performance indicators

In order to measure the success of the Company in meeting its objectives and to evaluate the performance of the Manager, the Directors take into account the following key performance indicators:

- *Returns and net asset value*
  The Board reviews and compares, at each meeting, the performance of the portfolio as well as the net asset value, income and share price for the Company. The Company does not have a formal benchmark.

- *Discount/premium to net asset value ('NAV')*
  At each Board meeting, the Board monitors the level of the Company's discount/premium to NAV and reviews the average discount/premium for the Company's relevant AIC sector. The Company publishes a NAV per share figure on a daily basis through the official newswire of the London Stock Exchange. This figure is calculated in accordance with the AIC formula which includes current financial year revenue; the same basis as that calculated for the financial statements. The NAV excluding current financial year revenue is also published for historical cost comparison.

- *Yield*
  At each Board meeting, the Directors examine the revenue forecast and consider yield on the portfolio and the amount available for distribution.

Report of the Directors

continued

- *Performance against other income funds*
  The Board considers the peer group performance of other income funds, at each Board meeting.

e) Management, administration, custody and registration arrangements

Investment management services are provided to the Company by wholly owned subsidiary companies of Henderson Global Investors (Holdings) plc ('Henderson') under a management agreement.

The management fee is calculated and paid quarterly in arrears at the rate of 0.75% per annum of the net chargeable assets of the Company. A performance fee is also payable in certain circumstances. This fee is calculated and payable at the end of the Company's financial year if the Company's total return in that year exceeds the hurdle return for the year at a rate of 15% of such excess subject to a cap of 1.75% of the Company's net assets in any financial year. For the year under review, a performance fee of £606,000 was payable (2011: nil). This is the first year for which a performance fee has been paid.

The management agreement may be terminated by either party, but in certain events the Company would be required to pay compensation to Henderson of 12 months' management charges. No compensation is payable if notice of termination of more than 12 months is given.

During the year the Manager used certain services provided by or paid for by various brokers. In return it placed business, which may have included transactions relating to the Company, with these brokers.

Administration services and the services of the Company Secretary are provided to the Company by BNP Paribas Securities Services Fund Administration Limited ('BNPP'). BNP Paribas Securities Services Trust Company (Jersey) Limited acts as custodian to the Company's assets. Registrar services are provided by Computershare Investor Services (Jersey) Limited.

f) Related party transactions

Other than the fees payable in the ordinary course of business, there have been no material transactions with a related party which have affected the financial position or performance of the Company in the financial year.

g) Principal risks and uncertainties

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 objective and policy, in order to mitigate risks as far as practicable. The principal risks which have been identified and the steps taken by the Board to mitigate these are as follows:

Investment Strategy

An inappropriate investment strategy, for example, in terms of asset allocation or level of gearing, may result in under performance against the companies in the peer group, and also in the Company's shares trading on a wider discount. The Board manages these risks by ensuring a diversification of investments and a regular review of the extent of borrowings. The Manager operates in accordance with an investment limits and restrictions policy determined by the Board, which includes limits on the extent to which borrowings may be employed. The Board reviews the limits and restrictions on a regular basis and the Manager confirms adherence to them every month. The Manager provides the Board with management information, including performance data and reports and shareholder analyses. The Directors monitor the implementation and results of the investment process with the Manager at each Board meeting and monitor risk factors in respect of the portfolio. Investment strategy is reviewed at each meeting.

Market

Market risk arises from uncertainty about the future prices of the Company's investments. This is commented on in Note 14 on page 35.

Accounting, legal and regulatory

The Company is regulated by the Jersey Financial Services Commission and complies with the regulatory requirements in Jersey. The Company must comply with the provisions of the Companies (Jersey) Law, 1991 and since its shares are listed on the London Stock Exchange, the UKLA's Listing and Disclosure Rules. A breach of company law could result in the Company and/or the directors being fined or the subject of criminal proceedings and financial and reputational damage. A breach of the UKLA Rules could result in the suspension of the Company's shares. The Board relies on its Company Secretary and advisers to ensure adherence to company law and UKLA Rules.

Report of the Directors
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Operational
Disruption to, or the failure of, the Manager's or the Administrator's accounting, dealing, or payment systems or the Custodian's records could prevent the accurate reporting or monitoring of the Company's financial position. The Administrator, BNP Paribas Securities Services Fund Administration Limited, sub-contracts some of the operational functions (principally relating to trade processing, investment administration and accounting) to BNP Paribas Securities Services. Details of how the Board monitors the services provided by the Manager and other suppliers, and the key elements designed to provide effective internal control, are explained further in the internal controls section of this report.

Financial
The financial risks faced by the Company include market price risk, interest rate risk, liquidity risk and credit risk. Further details are disclosed in Note 14 on pages 34 to 39. Disclosures are provided in accordance with IFRS 7, Financial Instruments: Disclosures.

Corporate Governance Statement

a) Applicable Corporate Governance Codes
The Board is accountable to shareholders for the governance of the Company's affairs. Section 7.2 of the Disclosure and Transparency Rules of the UK Listing Authority requires all listed companies to publish a corporate governance statement, while rule 9.8.6 of the Listing Rules requires all listed companies to disclose how they have applied the principles and complied with the provisions of the UK Corporate Governance Code (the 'Code'). As an investment company, most of the Company's day-to-day responsibilities are delegated to third parties, the Company has no employees and all the Directors are non-executive. Thus, not all the provisions of the Code are directly applicable to the Company.

The Financial Reporting Council (the 'FRC') confirmed on 30 September 2010 that it remained the view of the FRC that by following the Corporate Governance Guide for Investment Companies produced by the Association of Investment Companies (the 'AIC Guide') published in 2010, boards of investment companies should fully meet their obligations in relation to the Code and rule 9.8.6 of the Listing Rules. The AIC Code of Corporate Governance (the 'AIC Code') published in October 2010 as explained by the AIC Guide, addresses all the principles set out in Section 1 of the Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to investment companies.

The Board believes that reporting on the AIC Code by reference to the AIC Guide will provide the most appropriate information to shareholders and has therefore followed the principles and recommendations set out in the AIC Code. Copies of the AIC Code and the AIC Guide can be found at www.theaic.co.uk

The AIC Code was enhanced for Jersey companies in March 2009 to include a statement of support from the Jersey Financial Services Commission and was further revised in 2010.

b) Statement of compliance
The AIC Code comprises 21 principles. The Directors believe that during the year under review they have complied with the provisions of the AIC Code, insofar as they apply to the Company's business, and with the provisions of the Code except as noted below.

The Code includes provisions relating to:

- The role of the Chief Executive
- The appointment of a Senior Independent Director
- Executive directors' remuneration
- The need for an internal audit function.

As the Company delegates to third parties its day-to-day operations and has no employees, the Board does not consider these provisions to be relevant to the Company and has not reported further in respect of these provisions.

The Directors believe that this Report and Financial Statements presents a balanced and understandable assessment of the Company's position and prospects.

c) Directors
The names and biographies of the Directors holding office at the date of this report are listed on page 2.

The Articles of Association require that all Directors submit themselves for election by shareholders at the first opportunity following their appointment and shall not remain in office longer than three years since their last election or re-election without submitting themselves for re-election. The Articles also provide that one third of the Directors retire by rotation

Report of the Directors

continued

each year. Paul Manduca and Nigel Parker offer themselves for re-election at the forthcoming AGM having previously been re-elected in 2010. The Board considers that there is a balance of skills and experience within the Board and each of the Directors contributes effectively.

Board independence, composition and tenure
The Board currently consists of four non-executive directors. All are currently independent of the Company's Manager and the Company's Administrator. The Directors consider that there are no factors which compromise the Directors' independence and that they all contribute to the affairs of the Company in an independent manner.

The Directors are conscious of the need to maintain continuity of the Board. The Board believes that retaining directors with sufficient experience of both the Company and its markets is of great benefit to shareholders and that the Directors have different qualities and areas of expertise on which they may lead where issues arise. Their biographies, set out on page 2, demonstrate a breadth of investment, commercial and professional experience with an international perspective. The Nominations Committee considers succession planning, bearing in mind the balance of skills, knowledge and experience of the Board and will recommend when the further recruitment of a non-executive Director is required. As each of the Directors joined the Board at the same time; the intention is to phase changes to ensure an orderly transition of skills and balance of experience. The Board does not consider that length of service necessarily compromises the independence or effectiveness of each individual Director.

Directors' conflicts of interest
The Directors have a duty to avoid situations where they have, or could have, a direct or indirect interest that conflicts, or possibly could conflict, with a company's interests. The Codes of Practice for Certified Funds introduced in Jersey in April 2012 require that a Fund must avoid conflicts of interest arising with its fund service providers or any of their associates. Where such a conflict does arise (and disclosure of the nature of such conflict has not previously been made to shareholders), the fund must address such conflict through internal rules of confidentiality, or by declining to act, or by disclosing the nature of the conflicts to shareholders.

Each of the Directors has provided a statement of all interests, if any, applicable to the Company. A register of conflicts of interest has been compiled and approved by the Board. The Directors have also undertaken to notify the Company Secretary as soon as they become aware of any new potential conflicts of interest that would need to be approved by the Board and added to the register, which is reviewed quarterly by the Board.

It has also been agreed that Directors will advise the Chairman and the Company Secretary in advance of any proposed external appointment and new Directors will be asked to submit a list of potential situations falling within the conflicts of interest provisions of the Codes of Practice for Certified Funds in advance of joining the Board. Only Directors who have no material interest in the matter being considered will be able to participate in the Board approval process. In deciding whether to approve an individual Director's participation, the other Directors will act in a way they consider to be in good faith in assessing the materiality of the conflict in accordance with the Company's Articles of Association.

The Board believes that its powers of authorisation of conflicts of interest have operated effectively. The Board also confirms that its procedure for the approval of conflicts of interest has been followed by the Directors.

Directors' Remuneration
A report on Directors' Remuneration is on page 22.

Directors' interests in shares
The Directors and their beneficial interests in the shares of the Company at the start and end of the financial year are stated below:

Ordinary Shares of no par value	**31 October 2012**	31 October 2011
Paul Manduca (Chairman)	**150,000**	150,000
Helen Green	**10,000**	10,000
Nigel Parker	**–**	–
David Smith	**20,000**	20,000

There have been no changes in the interests of the Directors since the year end.

Directors' professional development
Training seminars held by the Manager are offered to newly appointed Directors. Directors are also provided, on a regular

Report of the Directors

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basis, with key information on the Company's policies, regulatory and statutory requirements and internal controls and each Director's individual training requirements are considered by the Chairman as part of an annual appraisal. Changes in directors' responsibilities are advised to the Board as they arise. Directors also regularly participate in relevant training and industry seminars.

Directors' Indemnity
Directors' and officers' liability insurance cover is in place in respect of the Directors. The Company's Articles of Association provide an indemnity for 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 judgment is given in their favour by the Court.

d) The Board

Responsibilities
The Board meets at least four times each year and deals with the important aspects of the Company's affairs, including the setting and monitoring of investment strategy and the review of investment performance. Matters specifically reserved for decision by the full Board have been defined and a procedure adopted for Directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company. The Directors have access to the advice and services of the Company Secretary, through its representative who is responsible to the Board for ensuring that Board procedures are followed.

Board Committees
The Board has established Audit, Management Engagement and Nominations committees with defined terms of reference and duties. The terms of reference for each of the committees is available on the Company's website.

a) Audit Committee
The Board has appointed an Audit Committee, which operates within clearly defined terms of reference and which comprises the entire Board. In summary, the Audit Committee's main functions are:

- to review and monitor the internal financial control systems and risk management systems on which the Company is reliant;
- to consider annually whether there is a need for the Company to have its own internal audit function;
- to monitor the integrity of the half year and annual financial statements and the going concern statement of the Group by reviewing and challenging, where necessary, the actions and judgments of the Manager and the Administrator;
- to meet, if required, with the Company's auditors to review their proposed audit programme of work and the findings of its auditors (the Audit Committee also uses this as an opportunity to assess the effectiveness of the audit process);
- to make recommendations to the Board in relation to the appointment of the Company's auditors and to approve the remuneration and terms of engagement of the Company's auditors;
- to monitor and review annually the Company's auditors' independence, objectivity, effectiveness, resources and qualifications; and
- to consider and monitor the provision of non-audit services by the auditors, taking into account the relevant ethical guidance regarding the supply of such services.

Helen Green has been Chairman of the Audit Committee since 8 June 2007.

The Audit Committee has satisfied itself that Grant Thornton Limited, the Company's auditors, are independent. The auditors are required to rotate the audit partner every five years and this is the fifth year that the current partner has been in place.

b) Management Engagement Committee
The Management Engagement Committee is responsible for reviewing the performance of the Manager and for ensuring that the Manager complies with the terms of the management agreement and that the provisions of that agreement follow industry practice and remain competitive and in the best interests of shareholders. This Committee is chaired by the Chairman of the Board.

c) Nominations Committee
The Board seeks to ensure that it is well-balanced with the skills and experience necessary. Directors must be able to demonstrate their commitment to the Company. The Board seeks to encompass their past and current experience of various areas relevant to the Company's business.

The Board has appointed a Nominations Committee, which comprises the entire Board and is chaired by the Chairman

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and which will be convened for the purpose of considering the appointment of additional or replacement directors and reviewing the performance of current Board members. When considering succession planning the Committee bears in mind the balance of skills, experience and diversity existing within the Board and may recommend additional recruitment. A formal job description would be drafted and external agencies may be used to assist in the process.

Attendance at meetings

The number of formal meetings held during the year of the Board, Audit, Management Engagement and Nominations Committees, and the attendance of the individual Directors at those meetings, is shown in the following table:

Number of meetings in year	Board **4**	Audit Committee **2**	Management Engagement Committee **1**	Nominations Committee **1**
Paul Manduca	4	2	1	1
Helen Green	4	2	1	1
Nigel Parker	3	1	1	1
David Smith	4	2	1	1

In addition, a number of short Board Meetings were held during the year to approve dividends, release Interim Management Statements and to attend to pressing matters. The Annual General Meeting was held in March 2012.

e) Performance evaluation

The performance of the Company is considered in detail at each Board meeting. The Chairman reviews each individual Director's contribution on an annual basis. The work of the Board as a whole and its committees are reviewed annually. The Directors also meet without the Chairman present in order to review his performance.

f) Internal controls

The Board has established a process for identifying, evaluating and managing any major risks faced by the Company including financial reporting risks. This process is subject to regular review by the Board and accords with the Financial Reporting Council Guidance. The process has been in place since 2007 and up to the date of the approval of this annual report.

The Board is responsible overall for the Company's system of risk management and internal control and for reviewing its effectiveness taking into account that the activities of the Company are outsourced to external service providers. 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, assisted by the Manager and the Administrator, undertook a full review of the Company's business risks and these have been analysed and recorded in a risk map which is reviewed regularly. The Board receives each quarter from the Manager and Administrator jointly, a formal report which details the steps taken to monitor the areas of risk, and which reports the details of any known internal control failures. The Board receives each year from each of the Manager and the Administrator, a report on its internal controls which includes a report from each party's auditors on the control policies and procedures in operation. Steps will continue to be taken to embed the system of internal control and risk management into the operation and culture of the Company and its key suppliers.

The Manager and Administrator have each 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 the Manager's and Administrator's compliance and risk departments on a continuing basis.

By means of the procedures set out above the Board confirms that it has reviewed the effectiveness of the Company's system of risk management and internal control for the year ended 31 October 2012 and to the date of approval of this Annual Report and Financial Statements and no significant failings or weaknesses have been identified.

g) Accountability and relationship with the Manager and the Administrator

The Statement of Directors' Responsibilities in respect of the Group's financial statements is set out on page 21, the Independent Auditor's Report is set out on page 23 and the Statement of Going Concern on page 12.

The Board has contractually delegated to external agencies, including the Manager and the Administrator, the management of the investment portfolio, the custodial services (which include the safeguarding of the Group's assets), the registration services and the day-to-day company secretarial, administration and accounting services. Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of services

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offered, including the control systems in operation in so far as they relate to the affairs of the Company.

The Board receives and considers reports regularly from the Manager and ad hoc reports and information are supplied to the Board as required. In addition, the Chairman or one of the other Directors attends meetings of all the chairmen of the investment trusts and investment companies managed by the Manager. These are a forum to discuss issues of common interest, and are reported on back to the Board.

The Manager takes decisions as to the purchase and sale of individual investments. The Manager and the Administrator also ensure that all Directors receive, in a timely manner, all relevant management, regulatory and financial information. Representatives of the Manager and of the Administrator attend each Board meeting enabling the Directors to probe further on matters of concern. A formal schedule of matters specifically reserved for decision by the full Board has been defined and a procedure adopted for Directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company within certain parameters. The Directors have access to the advice and services of the corporate Company Secretary through its appointed representative who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The Board, the Manager and the Administrator operate in a supportive, co-operative and open environment.

Bribery Act 2010 (UK) and Corruption (Jersey) Law 2006
The Board has reviewed the implications of the Bribery Act 2010 (UK) and Corruption (Jersey) Law 2006 and confirmed its zero tolerance to bribery and corruption in its business activities. The Directors have adopted a procedure whereby they are required to report any potential acts of bribery and corruption in respect of the Fund to the duly appointed Money Laundering Reporting Officer in Jersey.

h) Continued appointment of the Manager
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 the Manager are set out on page 13.

The Board reviews investment performance at each Board meeting and a formal review of the Manager is conducted annually.

As a result of their annual review, it is the opinion of the Directors that the continued appointment of the current Manager on the terms agreed is in the interests of the Company's shareholders as a whole.

The Manager has extensive investment management resources and wide experience in managing and administering investment companies.

i) Share capital and shareholders
The Company's share capital comprises Ordinary shares of no par value. The voting rights of the shares on a poll are one vote for every share held. There are no restrictions on the transfer of the Company's shares or voting rights and there are no shares which carry specific rights with regard to the control of the Company. The number of shares in issue at the start and end of the year was 83,640,877.

Substantial Share Interests
As at 7 February 2013 the following had declared a notifiable interest in the Company's issued share capital.

Shareholder	% of voting rights
Brewin Dolphin Securities Ltd	25.02
Investec Wealth & Management	12.88
Cazenove Capital Management Ltd	9.87
Midas Capital plc	9.45
Premier Fund Managers	5.14
Turcan Connell	4.99

There has been no change since the year end other than in respect of the interest of Brewin Dolphin Securities Limited which increased from 20.02% to 25.02% over the period. The above percentages are calculated by applying the shareholding as notified to the Company to the issued share capital as at 7 February 2013 (shareholdings being voting rights).

Relations with shareholders
Shareholder relations are given high priority by the Board and by the Manager. The prime medium by which the Company communicates with shareholders is through the Half Year and Annual Reports which aim to provide shareholders with a clear understanding of the Company's activities and its results. This information is supplemented by the daily calculation and publication on the London Stock Exchange website of the net asset value of the Company's ordinary shares and a monthly fact sheet. All documents issued by the Company can be viewed on the website, www.hendersondiversifiedincome.com.

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It is the intention of the Board that the Notice of AGM be issued to shareholders so as to provide at least twenty working days' notice of the meeting. Shareholders wishing to lodge questions in advance of the meeting and specifically related to the resolutions proposed are invited to do so by writing to the Company Secretary at the address given on page 44. At other times the Company Secretary responds to letters from shareholders on a range of issues.

General presentations to both institutional shareholders and analysts follow the publication of the annual results. All meetings between the Manager and shareholders are reported to the Board.

The Board recognises that few shareholders are able to travel to Jersey to attend the AGM so a shareholder event will be held in London on Tuesday 19 March 2013. Full details are set out on page 43. This will give shareholders the opportunity to meet the Chairman and to address questions to the Portfolio Managers who, as the representatives of the Manager, will make a presentation to shareholders.

j) Corporate Responsibility

- *Responsible investment*
  Responsible Investment is the term Henderson uses to cover 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. 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 therefore considered as part of the investment risk decision.

- *Voting policy and the UK Stewardship Code*
  Henderson's Responsible Investment Policy sets out the Manager's 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 Stewardship Code. The Company has delegated responsibility for voting to the Manager. The Board will receive a report, at least annually, on the voting undertaken by the Manager 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 Portfolio Manager and/or members of the Board will give specific instructions on voting non-routine and unusual or controversial resolutions. Decisions not to support resolutions and the rationale therefor are fed back to the investee company prior to voting.

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

- *Employee 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.

Annual General Meeting ('AGM')

The AGM will be held in Jersey on Friday 15 March 2013 at 11.00am. The Notice of Meeting is contained in a separate document which has been sent to shareholders with the Annual Report. Separate resolutions are proposed for each substantive issue.

The Directors intend to operate an active discount management policy through the use of share buy backs, if the shares were ever to trade at a substantial discount to net asset value for a significant period. The Directors seek annual authority to buy back and cancel, or hold in Treasury, the Company's shares. On 8 March 2012 the Directors were granted authority to repurchase 12,537,767 shares for cancellation. This authority, which has not been used, will expire at the forthcoming AGM.

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The Company is also seeking authority to disapply pre-emption rights relating to share issues. These powers will give the Directors additional flexibility going forward and the Board considers that it will be in the interests of the Company that such powers be available.

Independent Auditors

Our auditors, Grant Thornton Limited, have indicated their willingness to remain in office. The Directors will place a resolution before the Annual General Meeting to re-appoint them as independent auditors for the ensuing year, and to authorise the Directors to determine their remuneration.

Directors' Statement as to Disclosure of Information to Auditors

The Directors who were members of the Board at the time of approving this Report are listed on page 2. Each of those Directors confirms that:

- to the best of his or her knowledge and belief, there is no information relevant to the preparation of their report of which the Auditors are unaware; and
- 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 auditors are aware of that information.

For and on behalf of the Board

Helen Green
Director
7 February 2013

Statement of Directors' Responsibilities in respect of the Group's Financial Statements

The Directors are responsible for preparing the Annual Report and the Group financial statements in accordance with applicable Jersey law and International Financial Reporting Standards as adopted by the European Union.

Jersey law requires the Directors to prepare, in accordance with generally accepted accounting principles, financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period.

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis; and
- specify which generally accepted accounting principles have been adopted in their preparation.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements are published on a website maintained by the Company's Manager, Henderson Global Investors Limited, in the United Kingdom. The maintenance and integrity of this website is, so far as it relates to the Group, the responsibility of Henderson. The work carried out by the auditors does not involve consideration of the maintenance and integrity of the website and, accordingly, the auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in their own jurisdiction.

Statement under Disclosure and Transparency Rules

The Directors, who are listed on page 2 of this Annual Report, each confirm to the best of their knowledge that:

(a) the financial statements, prepared in accordance with applicable international financial reporting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group; and

(b) this Annual Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

For and on behalf of the Board

Helen Green
Director
7 February 2013

Directors' Remuneration Report

This report meets the relevant Listing Rules of the Financial Services Authority and describes how the Board has applied the principles relating to Directors' remuneration. A resolution to receive and approve this report will be proposed at the AGM.

Consideration by the Directors of matters relating to Directors' remuneration

As the Board is comprised entirely of non-executive Directors the Board as a whole considers the Directors' remuneration. The Board has not been provided with advice or services by any outside person in respect of its consideration of the Directors' remuneration although the Directors do review the fees paid to the boards of directors of similar investment companies.

Statement of the Company's policy on Directors' remuneration

The Board meets regularly to deal with the important aspects of the Company's affairs. Directors are appointed with the expectation that they will initially serve for a period of three years. Directors' appointments will be reviewed formally every three years thereafter by the Board as a whole. Each of the Directors has a letter of appointment and a Director may resign by giving notice in writing to the Board at any time; there are no set notice periods. The Company's policy is for the Directors to be remunerated in the form of fees, payable quarterly in arrears. There are no long term incentive schemes provided by the Company and the fees are not specifically related to the Directors' performance, or the share price. Each Director will stand for re-election every three years.

The Company's policy is that the fees payable to the Directors should reflect the time spent by the Board on the Company's affairs and the responsibilities borne by the Directors and should be sufficient to enable candidates of high calibre to be recruited. The policy is for the Chairman of the Board and Chairman of the Audit Committee to be paid a higher fee than the other Directors in recognition of their more onerous roles and more time spent. The Company's Articles of Association limit the aggregate fees payable to the Directors to £200,000 per annum. Fees are paid at the following annual rates: the Chairman £35,000; the Chairman of the Audit Committee £25,000; the other Directors £20,000. The last increase in fees was as at 1 April 2011.

Directors' and Officers' liability insurance cover is in place in respect of the Directors.

Directors' fees and expenses

The fees payable by the Company in respect of each of the Directors who served during the year and during 2011, were as follows:

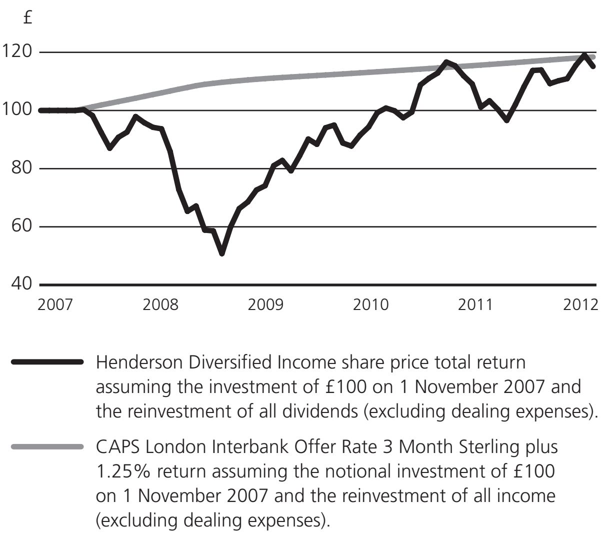
	2012 £	2011 £
Paul Manduca (Chairman and highest paid director)	**35,000**	32,726
Helen Green	**25,000**	23,611
Nigel Parker	**20,000**	18,848
David Smith	**20,000**	18,848
Total	**100,000**	94,033

Helen Green and Nigel Parker also each receive £5,000 fees (2011: £5,000) as Directors of the Luxembourg subsidiary. Helen Green's fees are paid to Saffery Champness.

No other remuneration or compensation was paid or payable by the Company during the period to any of the Directors.

The graph below illustrates the total shareholder return as compared to the absolute return objective of 1.25% over three month sterling LIBOR for the five year period to 31 October 2012.

Share price performance graph



Sources: IMSE

For and on behalf of the Board

Helen Green
Director
7 February 2013

Independent Auditor's Report to the members of Henderson Diversified Income Limited

We have audited the Group financial statements of Henderson Diversified Income Limited for the year ended 31 October 2012 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRS') as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Article 113 of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As described in the Statement of Directors' Responsibilities on page 21 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 legal and regulatory requirements and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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 Group'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.

In addition, we read all the financial and non-financial information in the annual report for the year ended 31 October 2012 to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 October 2012 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Jersey) Law 1991 requires us to report to you, if in our opinion:

- the Group has not kept proper accounting records; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received proper returns adequate for our audit from branches not visited by us; or
- we have not received all the information and explanations, which to the best of our knowledge and belief, are necessary for the purposes of our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 12, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to the shareholders by the Board on directors' remuneration.

Cyril Swale
For and on behalf of
Grant Thornton Limited
Chartered Accountants
St. Helier, Jersey, Channel Islands

7 February 2013

The financial statements are published on websites maintained by the Company's Manager, Henderson Global Investors Limited ('Henderson').

The maintenance and integrity of these websites are the responsibility of Henderson; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

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

Consolidated Statement of Comprehensive Income

for the year ended 31 October 2012

Notes		Year ended 31 October 2012 Revenue return £'000	Year ended 31 October 2012 Capital return £'000	Year ended 31 October 2012 Total £'000	Year ended 31 October 2011 Revenue return £'000	Year ended 31 October 2011 Capital return £'000	Year ended 31 October 2011 Total £'000
11(b)	Gains/(losses) on investments at fair value through profit or loss	**–**	**1,651**	**1,651**	–	(4,490)	(4,490)
	Gains on foreign exchange transactions at fair value through profit or loss	**–**	**3,168**	**3,168**	–	428	428
3	Investment income	**5,394**	**–**	**5,394**	5,186	–	5,186
4	Other income	**3**	**–**	**3**	12	–	12
	Total income	**5,397**	**4,819**	**10,216**	5,198	(4,062)	1,136
	Expenses						
5	Management and performance fee	**(273)**	**(879)**	**(1,152)**	(279)	(279)	(558)
6	Other expenses	**(463)**	**–**	**(463)**	(488)	–	(488)
	Profit/(loss) before finance costs and taxation	**4,661**	**3,940**	**8,601**	4,431	(4,341)	90
7	Finance costs	**(86)**	**(85)**	**(171)**	(83)	(83)	(166)
	Profit/(loss) before taxation	**4,575**	**3,855**	**8,430**	4,348	(4,424)	(76)
8	Taxation	**(46)**	**–**	**(46)**	(29)	–	(29)
	Profit/(loss) for the year	**4,529**	**3,855**	**8,384**	4,319	(4,424)	(105)
9	**Earnings/(loss) per ordinary share**	**5.41p**	**4.61p**	**10.02p**	5.16p	(5.29)p	(0.13)p

The total column of this statement represents the Consolidated Statement of Comprehensive Income, prepared in accordance with IFRS. The revenue return and capital return columns are supplementary to this and are prepared under guidance published by the Association of Investment Companies.

All items in the above statement derive from continuing operations.

All income is attributable to the equity holders of Henderson Diversified Income Limited. There are no non-controlling interests.

The Group does not have any income or expense that is not included in the profit for the year and therefore the 'profit for the year' is also the 'total comprehensive income for the year'.

The net profit of the Group for the year was £8,384,000 (2011: loss of £105,000).

Consolidated Statement of Changes in Equity

for the year ended 31 October 2012

Notes	**Year ended 31 October 2012**	**Stated capital £'000**	**Distributable reserve £'000**	**Other capital reserves £'000**	**Revenue reserve £'000**	**Total £'000**
	Total equity at 31 October 2011	**37,677**	**39,862**	**(13,595)**	**1,502**	**65,446**
	Total comprehensive income:					
	Profit for the year	**–**	**–**	**3,855**	**4,529**	**8,384**
	Transactions with owners, recorded directly to equity:					
10	**Dividends paid**	**–**	**–**	**–**	**(4,183)**	**(4,183)**
	Total equity at 31 October 2012	**37,677**	**39,862**	**(9,740)**	**1,848**	**69,647**

Notes	Year ended 31 October 2011	Stated capital £'000	Distributable reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
	Total equity at 31 October 2010	37,677	39,862	(9,171)	1,115	69,483
	Total comprehensive income:					
	(Loss)/profit for the year	–	–	(4,424)	4,319	(105)
	Transactions with owners, recorded directly to equity:					
10	Dividends paid	–	–	–	(3,932)	(3,932)
	Total equity at 31 October 2011	37,677	39,862	(13,595)	1,502	65,446

The notes on pages 28 to 40 form an integral part of these financial statements

Consolidated Balance Sheet

at 31 October 2012

Notes		2012 £'000	2011 £'000
	Non current assets		
11(a)	Investments designated at fair value through profit or loss	**77,723**	69,928
	Current assets		
12	Other receivables	**2,373**	4,444
	Cash and cash equivalents	**372**	732
		2,745	5,176
	Total assets	**80,468**	75,104
	Current liabilities		
13	Other payables	**(10,821)**	(9,658)
	Net assets	**69,647**	65,446
	Equity attributable to equity shareholders		
15	Stated capital	**37,677**	37,677
16	Distributable reserve	**39,862**	39,862
	Retained earnings:		
17	Other capital reserves	**(9,740)**	(13,595)
	Revenue reserve	**1,848**	1,502
	Total equity	**69,647**	65,446
18	**Net asset value per ordinary share**	**83.3p**	78.2p

The financial statements were approved by the Board of Directors and authorised for issue on 7 February 2013 and were signed on its behalf by:

Helen Foster Green
Director

Nigel Robert Parker
Director

The notes on pages 28 to 40 form an integral part of these financial statements

Consolidated Cash Flow Statement

for the year ended 31 October 2012

	2012 £'000	2011 £'000
Net profit/(loss) before taxation	**8,430**	(76)
Add back interest paid	**171**	166
(Less)/add: (gains)/losses on investments designated as fair value through profit or loss	**(1,651)**	4,490
Less: gains on foreign exchange transactions at fair value through profit or loss	**(3,168)**	(428)
Increase in prepayments and accrued income	**(113)**	(106)
Increase/(decrease) in other payables	**413**	(199)
Net (purchases)/sales of investments	**(6,269)**	2,209
Decrease/(increase) in sales settlement debtor	**2,237**	(584)
Decrease in purchase settlement creditor	**(127)**	(2,633)
Net cash (outflow)/inflow from operating activities before finance costs	**(77)**	2,839
Interest paid	**(171)**	(166)
Taxation on investment income	**(142)**	(32)
Net cash (outflow)/inflow from operating activities	**(390)**	2,641
Financing activities		
Equity dividends paid	**(4,183)**	(3,932)
Loan expenses paid	**(22)**	(109)
Drawdown of loan	**890**	704
Net cash outflow from financing	**(3,315)**	(3,337)
Decrease in cash and cash equivalents	**(3,705)**	(696)
Cash and cash equivalents at the start of the year	**732**	806
Exchange movements	**3,287**	618
Amortisation of loan expenses	**58**	4
Cash and cash equivalents at the year end	**372**	732

The notes on pages 28 to 40 form an integral part of these financial statements

Notes to the Financial Statements

1 General information

The entity is a closed-ended company, registered as a no par value company under the Companies (Jersey) Law 1991, with its shares listed on the London Stock Exchange.

The Company was incorporated on 5 June 2007.

2 Accounting policies

a Basis of preparation

This consolidated financial information for the year ended 31 October 2012 has been prepared in accordance with International Financial Reporting Standards ('IFRS'). These comprise standards and interpretations approved by the International Accounting Standards Board ('IASB'), together with interpretations of the International Accounting Standards and Standing Interpretations Committee approved by the International Accounting Standards Committee ('IASC') that remain in effect, to the extent that IFRS have been adopted by the European Union ('EU').

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments.

The principal accounting policies adopted are set out below. Where consistent with IFRS the financial statements have also been prepared in accordance with the guidance set out in the Statement of Recommended Practice ('SORP') for Investment Companies issued by the Association of Investment Companies ('AIC') as revised in January 2009.

Standards, amendments and interpretations to existing standards that become effective in future accounting periods and have not been adopted by the Group:

IFRS 9: Financial Instruments – Classification and Measurement 1 January 2015
IFRS 10: Consolidated Financial Statements 1 January 2013
IFRS 12: Disclosure of Interests in Other Entities 1 January 2013
IFRS 13: Fair Value Measurement 1 January 2013

The Directors do not expect that the adoption of these standards will have a material impact on the financial statements of the Group in future periods.

b Basis of consolidation

The consolidated financial information comprises the financial information of Henderson Diversified Income Limited ('the Company') and its subsidiary undertaking, Henderson Diversified Income (Luxembourg) s.à.r.l. ('the Subsidiary').

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised as assets, are eliminated in full.

The Subsidiary is fully consolidated from the date of inception, being the date on which the Group obtained control, and will continue to be consolidated until the date that such control ceases.

c Investments designated as fair value through profit or loss

All loans, bonds and equities are designated as held at fair value through profit or loss. This is consistent with the Group's investment strategy and information about these investments is provided to the Board. Assets are de-recognised at the trade date of the disposal. Proceeds will be measured at fair value, which will be regarded as the proceeds of sale less any transaction costs. The fair value of the financial instruments is based on their quoted bid price at the balance sheet date, without deduction of the estimated future selling costs.

Notes to the Financial Statements

continued

2 Accounting policies (continued)

Changes in the fair value of investments held at fair value through profit or loss and gains and losses on disposal are recognised in the profit or loss as 'Gains/(losses) on investments at fair value through profit or loss'. Also included within this caption are transaction costs in relation to the purchase or sale of investments, including the difference between the purchase price of an investment and its bid price at the date of purchase. In assessing impairment, the Board estimates the recoverable amount of the loan to the Subsidiary to be lower by the net deficit in the Subsidiary and as such recognises this in note 11.

d Income

Income from fixed interest securities is recognised using the effective interest method. Income from equity securities is recognised on an ex-dividend basis. Bank interest and premiums on credit default swaps are recognised on an accruals basis within the revenue return column of the Consolidated Statement of Comprehensive Income. In the event of a default, the income for the relevant period is allocated to capital to reduce the capital loss arising. The interest rates differential contained within currency forward exchange contracts that hedge investment positions against currency risk are recognised within the revenue return, to the extent they are material, over the life of the contract.

e Expenses

All administration expenses and interest payable are accounted for on an accruals basis. Expenses which are incidental to the purchase or sale of an investment are charged to the capital column of the Consolidated Statement of Comprehensive Income and allocated to capital reserves. On the basis of the Board's expected long term split of returns equally between capital gains and income, the Company charges 50% of investment management fees and finance costs to capital. Any performance fees payable are allocated wholly to capital.

f Taxation

The Company is subject to income tax at a rate of 0%. The States of Jersey introduced a Goods & Services Tax ('GST') with effect from 6 May 2009. The Company does not suffer any irrecoverable GST as it has applied to the Comptroller of Income Tax for inclusion on the list of 'International Services Entities' pursuant to the Goods & Services Tax (Jersey) Law 2007 and payment of the relevant application fees.

In Luxembourg the Subsidiary suffers taxation on net gains on investments and on income.

g Foreign currency

For the purposes of the consolidated financial information, the results and financial position of each entity is expressed in pounds sterling, which is the functional currency of the Company and the presentational currency of the Group. Sterling is the functional currency because it is the currency of the primary economic environment in which the Group operates. The Company is a closed-ended investment company, incorporated in Jersey, with its shares listed on the London Stock Exchange. Sterling is the currency by which dividends are returned to shareholders, share buy-backs and share issues are conducted and is the cost base of the Company.

Transactions recorded in overseas currencies during the period are translated into sterling at the appropriate daily exchange rates. Assets and liabilities denominated in overseas currencies at the balance sheet date are translated into sterling at the exchange rates ruling at that date.

h Cash and cash equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to insignificant risks of changes in value.

Notes to the Financial Statements

continued

2 Accounting policies (continued)

i Bank borrowings

Interest-bearing bank loans and overdrafts are recorded as the proceeds are received, net of direct issue costs. After initial recognition bank loans and overdrafts are subsequently measured at amortised cost. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the Consolidated Statement of Comprehensive Income using the effective interest 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 Segmental reporting

The Directors are of the opinion that the Group is engaged in a single segment of business, being investment business.

k Derivative financial instruments

The Group's activities expose it primarily to the financial risks of changes in market prices, foreign currency exchange rates and interest rates. Derivative transactions which the Group may enter into include forward foreign exchange contracts (the purpose of which is to manage currency risk arising from the Group's investing activities) and interest rate futures and swaps (the purpose of which is to take a position in relation to government bond yields). The Group may also use credit derivatives, for example buying or selling protection on credit default swaps in order to manage credit risk.

The use of financial derivatives is governed by the Group's policies as approved by the Board, which has set written principles for the use of financial derivatives.

Derivative financial instruments are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Changes in the fair value of derivative financial instruments are recognised in the Consolidated Statement of Comprehensive Income as they arise. If capital in nature, the associated change in value is presented as a capital item in the Consolidated Statement of Comprehensive Income.

l Equity and reserves

Share capital represents the nominal value of shares that have been issued. Distributable reserves includes any premiums received on the issue of share capital. Any transaction costs associated with the issue of shares are deducted from share premium. Retained earnings includes all current and prior period retained profits.

3 Investment income

	2012 £'000	2011 £'000
Income from investments:		
UK dividend income	**73**	149
Bond and loan interest	**4,808**	4,717
Premiums on credit default swaps	**513**	320
	5,394	5,186

4 Other income

	2012 £'000	2011 £'000
Bank and other interest	**3**	12

Notes to the Financial Statements

continued

		Year ended 31 October 2012			Year ended 31 October 2011		
		Revenue return £'000	**Capital return £'000**	**Total £'000**	Revenue return £'000	Capital return £'000	Total £'000
5	**Management and performance fee**						
	Investment management fee	**273**	**273**	**546**	279	279	558
	Performance fee	**–**	**606**	**606**	–	–	–
		273	**879**	**1,152**	279	279	558

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

		2012 £'000	2011 £'000
6	**Other expenses**		
	Directors' fees† (see the Directors' Remuneration Report on page 22)	**110**	104
	Auditor's remuneration (including £5,000 (2011: £11,000) relating to the Subsidiary):		
	– statutory audit	**37**	36
	– tax services for the Subsidiary	**8**	5
	Bank and custody charges	**35**	86
	Administration and Company Secretarial services	**157**	133
	Registrar's fees	**16**	10
	Stock exchange fees	**12**	16
	Printing and stationery	**10**	13
	Other expenses	**78**	85
		463	488

†Includes £10,000 (2011: £10,000) paid to the directors of the Luxembourg Subsidiary.

		Year ended 31 October 2012			Year ended 31 October 2011		
		Revenue return £'000	**Capital return £'000**	**Total £'000**	Revenue return £'000	Capital return £'000	Total £'000
7	**Finance costs**						
		86	**85**	**171**	83	83	166

		Year ended 31 October 2012			Year ended 31 October 2011		
		Revenue return £'000	**Capital return £'000**	**Total £'000**	Revenue return £'000	Capital return £'000	Total £'000
8	**Taxation**						
	The taxation charge for the year is comprised of the following:						
	Foreign withholding tax suffered	**48**	**–**	**48**	32	–	32
	Less: foreign tax recoverable	**(48)**	**–**	**(48)**	(32)	–	(32)
	Luxembourg tax	**46**	**–**	**46**	29	–	29
		46	**–**	**46**	29	–	29

Under Jersey law the Group is exempt from Jersey tax.

Notes to the Financial Statements

continued

9 Earnings/(loss) per ordinary share

The earnings/(loss) per ordinary share figure is based on the net profit for the year after taxation of £8.384 million (year ended 31 October 2011: loss of £0.105 million) and on 83,640,877 (2011: 83,640,877) being the weighted average number of ordinary shares in issue during the year.

The earnings/(loss) per ordinary share figure detailed above can be further analysed between revenue and capital, as below.

The Company has no securities in issue that could dilute the return per ordinary share. Therefore the basic and diluted earnings/(loss) per ordinary share are the same.

	2012 £'000	2011 £'000
Net revenue profit	**4,529**	4,319
Net capital profit/(loss)	**3,855**	(4,424)
Net total profit/(loss)	**8,384**	(105)
Weighted average number of ordinary shares in issue during the year	**83,640,877**	83,640,877

	2012 pence	2011 pence
Revenue earnings per ordinary share	**5.41**	5.16
Capital earnings/(loss) per ordinary share	**4.61**	(5.29)
Total earnings/(loss) per ordinary share	**10.02**	(0.13)

10 Dividends

	Record Date	Pay Date	**2012 £'000**	2011 £'000
Fourth interim dividend – 1.15p	10 December 2010	31 December 2010	**–**	962
First interim dividend – 1.15p	10 March 2011	31 March 2011	**–**	962
Second interim dividend – 1.20p	10 June 2011	30 June 2011	**–**	1,004
Third interim dividend – 1.20p	10 September 2011	30 September 2011	**–**	1,004
Fourth interim dividend – 1.25p	9 December 2011	30 December 2011	**1,046**	–
First interim dividend – 1.25p	9 March 2012	30 March 2012	**1,045**	–
Second interim dividend – 1.25p	8 June 2012	29 June 2012	**1,046**	–
Third interim dividend – 1.25p	7 September 2012	28 September 2012	**1,046**	–
			4,183	3,932

The fourth interim dividend has not been included as a liability in these financial statements as it was announced and paid after 31 October 2012.

Notes to the Financial Statements

continued

10 Dividends (continued)

The table below sets out the total dividends paid and to be paid in respect of the financial year. The revenue available for distribution by way of dividend for the year is £4.529 million (2011: £4.319 million).

	2012 £'000
First interim dividend for 2012 – 1.25p	**1,045**
Second interim dividend for 2012 – 1.25p	**1,046**
Third interim dividend for 2012 – 1.25p	**1,046**
Fourth interim dividend for 2012 – 1.25p (paid 31 December 2012 with a record date of 7 December 2012)	**1,046**
	4,183

11 (a) Investments designated as fair value through profit or loss

	Listed Investments £'000	Unlisted Investments £'000	Total £'000
Cost at 31 October 2011	**29,113**	**39,860**	**68,973**
Investment holding gains at 31 October 2011	**858**	**97**	**955**
Valuation at 31 October 2011	**29,971**	**39,957**	**69,928**
Movements in the year:			
Purchases at cost	**21,673**	**18,959**	**40,632**
Sales – proceeds	**(16,080)**	**(18,348)**	**(34,428)**
– realised gains on sales of investments designated as fair value through profit or loss	**801**	**(505)**	**296**
Movement in investment holding gains	**1,949**	**(654)**	**1,295**
Closing valuation at 31 October 2012	**38,314**	**39,409**	**77,723**

	2012 £'000	2011 £'000
(b) Gains/(losses) on investments at fair value through profit or loss		
Realised gains on sales of investments at fair value through profit or loss	**296**	2,357
Movement in investment holdings gains designated at fair value through profit or loss	**1,295**	(6,586)
Gains/(losses) on credit default swaps held at fair value through profit or loss	**60**	(261)
	1,651	(4,490)

(c) Transaction costs

During the year expenses amounting to £2,000 (year to 31 October 2011: £2,000) were incurred in acquiring or disposing of investments designated at fair value through profit or loss. These have been expensed through capital and are included within gains on investments at fair value through profit or loss in the Consolidated Statement of Comprehensive Income.

Notes to the Financial Statements

continued

11 Investments designated as fair value through profit or loss (continued)

(d) Subsidiary undertaking

The Company has an investment in the issued share capital in its wholly owned limited liability subsidiary undertaking, Henderson Diversified Income (Luxembourg) s.à.r.l.. This is a limited liability company, registered under the laws of the Grand Duchy of Luxembourg and was incorporated on 1 August 2007. In addition, the Company has made a loan to the subsidiary undertaking of £45.238 million (2011: £48.197 million). After providing for the net deficit in the Subsidiary of £6.925 million (2011: £8.259 million) the loan has been written down to £38.313 million (2011: £39.938 million).

The Subsidiary is valued at cost less impairment.

12 Other receivables

	2012 £'000	2011 £'000
Amounts due from brokers	**385**	2,622
Prepayments and accrued income	**1,288**	1,175
Withholding tax recoverable	**170**	122
Credit default swaps held at fair value through profit or loss	**280**	155
Forward exchange contracts held at fair value through profit or loss	**250**	370
	2,373	4,444

13 Other payables

	2012 £'000	2011 £'000
Amounts due to brokers	**2,344**	2,471
Bank loan (net of finance costs)	**7,735**	6,810
Taxation payable	**7**	55
Other payables	**735**	322
	10,821	9,658

14 Risk Management policies and procedures

The Group comprises a closed-ended investment company and its wholly owned subsidiary which invest primarily in fixed interest investments for the long term so as to secure the investment objective. In pursuing its investment objective, the Group is exposed to a variety of risks that could result in either a reduction in the Group's net assets or a reduction in the profits available for distribution by way of dividends.

These risks, market risk (comprising currency risk, interest rate risk and other price risk), liquidity risk and credit risk, and the Directors' approach to the management of them, are set out below. The Company Secretary, in close co-operation with the Board of Directors and the Manager (Henderson Global Investors Limited), co-ordinates the Group's risk management. The objectives, policies and processes for managing the risks, are set out below and are unchanged from the previous accounting period.

Notes to the Financial Statements

continued

14 Risk Management policies and procedures (continued)

14.1 Market risk

The fair value or future cash flows of a financial instrument held by the Group may fluctuate due to changes in market prices. This market risk comprises currency risk (see note 14.2), interest rate risk (see note 14.3) and other price risk (see note 14.4). The Board of Directors reviews and agrees policies for managing these risks. The 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.

14.2 Currency risk

A proportion of the Group's assets, liabilities and income are denominated in currencies other than sterling (the functional currency of the companies in the Group, and in which the Group reports its results). As a result, movements in exchange rates may affect the sterling value of those items.

Management of the risk

Forward currency contracts are used to limit the Group's exposure to anticipated future changes in exchange rates which might otherwise adversely affect the value of the portfolio of investments. Where appropriate, they are used to achieve the portfolio characteristics that assist the Group in meeting its investment objective. These contracts are limited to currencies and amounts equivalent to the asset exposure to those currencies.

Income denominated in foreign currencies is converted into sterling on receipt. The Group does not use financial instruments to mitigate the currency exposure in the period between the time that income is included in the financial statements and its receipt.

Foreign currency exposure

The currency exposure of the Group's monetary items at 31 October is shown below.

	2012			2011	
	US$ £'000	**Euro £'000**	**CHF £'000**	US$ £'000	Euro £'000
Investments at fair value through profit or loss that are monetary items	**5,411**	**36,080**	**434**	3,887	37,661
Receivables (due from brokers, dividends and other income receivable)	**79**	**1,081**	**5**	166	2,532
Cash at bank and on deposit	**26**	**153**	**–**	161	315
Payables (due to brokers, accruals and other creditors)	**(3)**	**(1,948)**	**–**	–	(1,712)
Forward currency sales	**(5,490)**	**(35,696)**	**(418)**	(3,992)	(38,999)
Credit default swaps	**73**	**207**	**–**	67	88
Total net foreign currency exposure	**96**	**(123)**	**21**	289	(115)

Foreign currency sensitivity

The majority of foreign currency assets and liabilities are hedged by the Investment Manager back to sterling using forward currency contracts. In the opinion of the Directors, this strategy means the Group's income and equity is not materially sensitive to changes in exchange rates.

Notes to the Financial Statements
continued

14 Risk Management policies and procedures (continued)

14.3 Interest rate risk

Interest rate movements may affect:
– the fair value of fixed interest securities (bonds, loans and interest rate futures)
– the level of income receivable from fixed interest securities and cash at bank and on deposit
– the interest payable on the Group's variable rate borrowings

Management of the risk

The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment decisions.

The Board reviews on a regular basis the values of the fixed interest rate securities.

The Group, generally, will not hold significant cash balances, with short term borrowings being used when required.

The Group had no interest rate futures in place at 31 October 2012 (2011: none).

Interest rate exposure

The exposure at 31 October 2012 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
– fixed interest rates – when the financial instrument is due for repayment

	2012 Within one year £'000	2012 One to five years £'000	2012 More than five years £'000	2012 Total £'000	2011 Within one year £'000	2011 One to five years £'000	2011 More than five years £'000	2011 Total £'000
Exposure to floating interest rates:								
Investments held at fair value through profit or loss	**45,987**	**–**	**–**	**45,987**	45,326	–	–	45,326
Cash at bank	**372**	**–**	**–**	**372**	732	–	–	732
Bank loan	**(7,735)**	**–**	**–**	**(7,735)**	(6,810)	–	–	(6,810)
	38,624	**–**	**–**	**38,624**	39,248	–	–	39,248
Exposure to fixed interest rates:								
Investments held at fair value through profit or loss	**–**	**7,318**	**23,069**	**30,387**	–	3,034	19,731	22,765
Total exposure to interest rates	**38,624**	**7,318**	**23,069**	**69,011**	39,248	3,034	19,731	62,013

At 31 October 2012, the Group had gross nominal exposure to interest rate futures and swaps to the value of £nil (2011: £nil).

Interest receivable is at the following rates:
– Interest received on cash balances, or paid on bank overdrafts and loans, is at margin over LIBOR or its foreign currency equivalent
– The weighted average effective interest rate of the Group's investments is 6.2% (2011: 5.7%)

Notes to the Financial Statements

continued

14 Risk Management policies and procedures (continued)

14.3 Interest rate risk (continued)

Interest rate sensitivity

The Group's portfolio (excluding equities) at 31 October 2012 was valued at £76.374 million (2011: £68.091 million) and has a modified duration (interest rate sensitivity) of approximately 2.2 years (2011: 1.7 years). A 100 basis point change in short term interest rates (up or down), which is mirrored by an equivalent change in long term rates, would be expected to decrease or increase this portfolio's value by approximately £1.680 million (2011: £1.158 million) all other factors being equal.

14.4 Other price risk

In addition to foreign currency and interest rate risk, the Group is also exposed to other price risk due to short term market price changes and default risk. A 10% increase or decrease in market prices would increase or decrease net profit after tax and shareholders' funds by £7.714 million (2011: £6.940 million) (equivalent to an increase or decrease in net asset value per share of 11.1% (2011: 10.6%)).

14.5 Liquidity risk

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

Management of the risk

Liquidity risk is monitored by the Manager on a daily basis to ensure financial liabilities can be paid as they fall due. Both the Corporate Bond portfolio and the Loan portfolio although traded over the counter, can be realised at or around the prevailing bid prices. The Corporate Bond portfolio is generally considered more liquid than the Loan portfolio. The Group also has a multi-currency loan facility of £25.5 million (£15.5 million with an additional £10 million commitment being available) (2011: £25.5 million), of which £7.804 million was drawn down at 31 October 2012 (2011: £6.915 million). This facility is subject to regular review and unless renewed will expire on 30 September 2013.

The Board gives guidance to the Manager as to the maximum amount of the Group's resources that should be invested in any one company. The policy is that the Group should remain fully invested in normal market conditions and that short term borrowings be used to manage short term cash requirements.

Liquidity risk exposure

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

	At 31 October 2012		At 31 October 2011	
	3 months or less £'000	**Total £'000**	3 months or less £'000	Total £'000
Amounts due to brokers, accruals and tax payable	**3,086**	**3,086**	2,848	2,848
Bank loans	**7,738**	**7,738**	6,819	6,819
	10,824	**10,824**	9,667	9,667

The Group also has exposure of £9.338 million (2011: £6.850 million) in respect of credit default swaps where protection has been sold.

Notes to the Financial Statements

continued

14 Risk Management policies and procedures (continued)

14.6 Credit risk

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

Management of the risk

The risk is significant, and is managed as follows:

– where the Investment Manager makes an investment in a bond, corporate or otherwise, the credit rating of the issuer is taken into account so as to determine the risk to the Group of default;
– investments in bonds and loans are made across a variety of industry sectors and geographical markets, so as to avoid concentrations of credit risk;
– transactions involving derivatives are entered into only with investment banks, the credit rating of which is taken into account so as to minimise the risk to the Group of default;
– investment transactions are carried out with a large number of brokers, whose credit standard is reviewed periodically by the Investment Manager, and limits are set on the amount that may be due from any one broker; and
– cash at bank is held only with reputable banks with high quality external credit ratings.

Credit derivatives are used as a way of managing the aggregate credit exposure of the Group without buying or selling a physical bond/loan. The primary credit derivatives used are Credit Default Swaps.

To the extent that the credit derivative exposure is not covered by cash held by the Group then any net long exposure would act as synthetic gearing. Credit default swaps are used by the Manager for two purposes. By selling protection (going long risk) the Manager can increase the Group's exposure to a particular reference entity. In return for taking this credit risk the Group will receive a specified income over the life of the contract but will be exposed to capital losses should the reference entity breach the terms of the contract (e.g. default) in the intervening period. This reference entity may be a specific company, or in the case of ITRAXX indices, a basket of credit exposures, for example senior financials. At 31 October 2012, the gross exposure to single name credit default swaps and ITRAXX indices was £2.296 million and £7.042 million respectively (2011: £2.015 million and £4.835 million respectively).

By contrast the Manager may buy protection (take a short risk position) on a reference entity to reduce the overall credit exposure. This would involve the payment of premium in order to protect against possible capital losses in the future. At 31 October 2012 the protection purchased was £nil (2011: £0.424 million).

The credit quality of bonds and secured loans is reviewed in the Managers' Report and Investment Portfolio on pages 4 to 10.

14.7 Fair values of financial assets and financial liabilities

Financial assets and financial liabilities, are either carried in the balance sheet at their fair value (investments and derivatives) or the balance sheet amount is a reasonable approximation of fair value (due from brokers, dividends and interest receivable, due to brokers, accruals and cash at bank).

Current assets and current liabilities: forward currency sales are valued on the basis of exchange rates for a similar contract for the same residual duration, as provided by the counterparty. The amount of change in fair value for such forward exchange contracts recognised in the Consolidated Statement of Comprehensive Income for the year was a gain of £2.830 million (2011: £0.086 million). The forward currency transactions serve to hedge back the value of Euro and US Dollar denominated securities to sterling.

Credit default swaps are fair valued. The amount of change in fair value recognised in the Consolidated Statement of Comprehensive Income for the year for credit default swaps was a gain of £0.750 million (2011: £0.395 million).

Notes to the Financial Statements

continued

14 Risk Management policies and procedures (continued)

14.8 Fair value hierarchy disclosures

The table below sets out fair value measurements using the IFRS 7 fair value hierarchy.

Financial assets at fair value through profit or loss at 31 October 2012	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Investments	**38,314**	**39,409**	**–**	**77,723**
Credit default swaps	**–**	**280**	**–**	**280**
Forward exchange contracts	**–**	**250**	**–**	**250**
	38,314	**39,939**	**–**	**78,253**

Financial assets at fair value through profit or loss at 31 October 2011	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investments	29,971	39,957	–	69,928
Credit default swaps	–	155	–	155
Forward exchange contracts	–	370	–	370
	29,971	40,482	–	70,453

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 as follows:

Level 1 – value 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

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 the accounting policies note on pages 28 to 30.

There were no transfers to or from Level 3 during the year.

14.9 Capital management policies and procedures

The Group's capital management objectives are:
- to ensure that it will be able to continue as a going concern, and
- to maximise the income and capital return to its equity shareholders

through an appropriate balance of equity capital and debt.

The policy is that debt should be between 0% and 20% of equity.

The Group had borrowings totalling £7.804 million at 31 October 2012 (2011: £6.915 million).

The Board with the assistance of the Manager monitors and reviews the broad structure of the Group's capital on an ongoing basis. This review includes:
- the planned level of gearing which takes into account the Manager's view on the market;
- the need to buy back equity shares for cancellation, 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 or premium);
- the need for new issues of equity shares; and
- the extent to which revenue in excess of that which is required to be distributed should be retained.

The Group is subject to the following externally imposed capital requirement:
- Under the multi currency facility now in place, borrowings shall be repaid at any time the Adjusted Asset Coverage falls below 3.3 times (as defined in the agreement) or the Borrowings exceed such limits as prescribed in the Company's original prospectus.

The Group has complied with these requirements during the year.

Notes to the Financial Statements

continued

15	**Stated capital**	**Stated Capital £'000**	**Number of fully paid shares issued**
	As at 31 October 2011 and 2012	**37,677**	**83,640,877**

16	**Distributable reserve**	**£'000**
	As at 31 October 2011 and 2012	**39,862**

The reserve was created by the reduction in stated share capital which was confirmed by the Royal Court of Jersey on 11 October 2007. The reserve may be used for all purposes permitted by the Companies (Jersey) Law 1991, including the purchase of shares and the payment of dividends.

17	**Capital reserves**	**Capital reserve arising on revaluation of investments held £'000**	**Capital reserve arising on investments sold £'000**	**Total £'000**
	At 31 October 2011	**1,241**	**(14,836)**	**(13,595)**
	Exchange movements	**(120)**	**3,288**	**3,168**
	Movement in investment holding gains	**1,295**	**–**	**1,295**
	Gains on investments	**–**	**296**	**296**
	Costs charged to capital	**–**	**(964)**	**(964)**
	Movement in credit default swaps	**60**	**–**	**60**
	At 31 October 2012	**2,476**	**(12,216)**	**(9,740)**

18 Net asset value per ordinary share

The net asset value per ordinary share is based on the net asset value attributable to ordinary shareholders at the year end of £69.647 million (2011: £65.446 million) and on 83,640,877 (2011: 83,640,877) ordinary shares, being the number of ordinary shares in issue at the year end.

19 Related Party Transactions

Directors' fees of £100,000 relating to the Company were paid during the year (2011: £94,000). A further £10,000 was paid in fees to the Directors of the Subsidiary (2011: £10,000). Further details are given in the Directors' Remuneration Report on page 22.

20 Transactions with the Manager

Under the terms of an agreement dated 15 June 2007, as amended, the Company has appointed wholly owned subsidiary companies of Henderson Group plc ('Henderson') to provide investment management services.

Details of the fee arrangements for these services are given in the Report of the Directors on page 13. The total of the fees paid or payable under this agreement to Henderson in respect of the year was £546,000 (2011: £558,000) of which £48,000 (2011: £170,000) was outstanding at 31 October 2012.

A performance fee is also payable to Henderson amounting to £606,000 (2011: £nil). This amount was outstanding at the balance sheet date.

Glossary of Terms

Asset backed securities
A bond secured against a specific pool of assets, such as credit card receivables, corporate loans or mortgages and collateralised by the future cash flows derived from this specific pool of assets.

Basis points ('bps')
One basis point is 1/100th of 1.00%, or 0.01%. 100 bps = 1%.

Bid-offer spread
The difference in price between the price quoted for an immediate sale (the bid price) and the price quoted for an immediate purchase (the offer price). In an illiquid market the bid-offer spread typically widens.

Bond
An IOU issued by a borrower, usually a government or a company, who pays a specific sum of money (a coupon) regularly over the life of the bond and repays the face value at maturity.

Breakeven rate
The difference between the yield on a conventional bond and an inflation-linked bond, which provides an indication of investors' inflation expectations.

Credit default swaps ('CDS')
An agreement designed to switch economic exposure between two parties. It is often characterised as an insurance policy but as there is no requirement to hold any asset it is a derivative. It is possible to be either a buyer or seller of 'insurance', the buyer pays a periodic fee (a premium) for protection against a specific event (e.g. a bond default) the seller would receive income but bear the cost of default.

Credit derivative
An over the counter derivative designed to transfer credit risk from one party to another. By synthetically creating or eliminating credit exposures they allow institutions to manage credit risks. Most credit derivatives entail two sources of credit exposure: one from the reference entity and the second from the possible default by the counterparty to the transaction. There are many forms of credit derivatives of which credit default swaps are one of the more popular structures.

Credit rating
Sovereign and corporate bonds usually receive a credit rating from one or more leading rating agencies e.g. Standard & Poor's ('S&P') or Moody's. The agencies assess the issuer's ability to service its interest payments and repay the principal, and assign it a rating that represents the risk of default.

Credit spread
The difference in yield between two bonds, measured in basis points. When one of the bonds is a top rated government bond, the spread represents the additional return investors demand to choose an asset with default risk over one with virtually none.

Default risk
This is the probability that the bond issuer is unable to make its coupon or principal payments. Investors affected may suffer a loss of income and only a partial principal repayment.

Derivatives
Financial instruments derived from another asset. Rather than buying or selling the asset itself the two parties enter into an agreement to exchange money, assets, or some other value at a future date. Derivatives are used to increase or decrease exposure or increase levels of risk within a portfolio and are more cost effective than purchasing the underlying assets themselves.

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

Duration
An indication of the sensitivity of the bond's price to a change in interest rates. For example, where the duration of a bond is four years, this indicates that for a 1% rise in the yield of the bond, the price of the bond would fall by approximately 4%, and for a 1% fall in the yield of the bond, the price would rise by approximately 4%.

Duration risk
The impact of an interest rate change on a bond portfolio's value.

Fixed income
Assets whose income remains constant; otherwise known as bonds. It also covers bonds with a variable coupon (e.g. inflation-linked bonds).

Floating rate note
A bond whose interest rate varies with short term rates. Also known as variable notes.

Future/Forward
Derivative contracts that lock in a fixed price on a defined quantity of an underlying asset at a stated maturity. Futures are generic exchange traded contracts whereas forwards are customised OTC contracts. Futures are used for duration

Glossary of Terms

continued

management and Forwards are used to hedge currency exposure.

Gearing
The gearing percentage reflects the amount of borrowings the Company uses to invest in the market.

Gilt
A bond issued by the British government.

Inflation-linked bond
A bond issued by governments or companies, whose coupon and face value are adjusted to reflect price increases. Index-linked bonds are inflation–linked bonds issued in the UK.

Interest rate future
A futures contract, the underlying security of which is a debt obligation (an interest bearing obligation). Examples include a Gilt future (with UK government bonds as the underlying security), Bond futures (German government bonds as the underlying security), Treasury-bond futures (US Treasury bonds as the underlying obligation).

IPOs
'Initial Public Offerings' i.e new issues to the market.

LIBOR
London Interbank Offered Rate – the central bank lending rate in the UK which is a market standard reference rate used by many bond fund managers.

Life
The length of time between a bond's issuance and maturity, otherwise known as 'term to maturity' or 'term'.

Net Asset Value
The value of the total assets less liabilities. The NAV per share of the Company is published daily.

OTC instrument/contract
'Over the counter' instrument, i.e. a non-exchange traded instrument, directly traded with a counterparty e.g. Deutsche Bank.

Quantitative Easing
An extreme form of monetary policy used to stimulate an economy where interest rates are either at, or close to, zero.

Secured loans
A form of lending to a company which offers first or second lien security (depending whether senior or junior) over other subordinated assets. These loans rank higher in seniority to other bond or debt securities and as a consequence have historically shown a relatively high ratio of recovery in events of default. Secured loans are a relatively cautious way of accessing the high yield market.

Swap
An exchange transaction between two parties which enables one party to exchange something it possesses for something it requires. Usually refers to exchanging floating rate payments for fixed rate payments.

Total return
The return on the share price or net asset value per share taking into account the rise and fall of share prices and the dividends paid to shareholders. Any dividends received by the shareholder are assumed to have been reinvested in additional shares (for share price total return) or the company's assets (for net asset value total return).

Yield
Yield-to-maturity or redemption yield is the return of an investment held until maturity, taking into account both coupon payments and capital gains and losses. A bond's simple yield is equal to the coupon rate divided by the bond's price.

Warning to Shareholders

Shareholders should be wary of unsolicited telephone calls or correspondence concerning the Company and offering investment advice, offers to buy shares at a discount or free company reports.

It is extremely unlikely that Henderson Diversified Income Limited, its Manager (Henderson Global Investors) or its Registrar (Computershare Investor Services) would make unsolicited telephone calls to shareholders. In the event that the Company or its advisers did make unsolicited calls, shareholders would never be asked to confirm their personal details and such calls would relate only to official documentation already circulated to shareholders and never be in respect of offering investment advice, or unpublished investment or financial information regarding the Company.

If you are in any doubt about the veracity of an unsolicited phone call, please call the Company Secretary at the telephone number provided on page 44.

Investor Information

Financial calendar

Financial year end	31 October 2012
Annual General Meeting	15 March 2013
Shareholder Event (see below)	19 March 2013
4th Interim dividend 2012	31 December 2012
Ex dividend date	5 December 2012
Record date	7 December 2012
1st Interim dividend 2013	28 March 2013
2nd Interim dividend 2013	28 June 2013
3rd Interim dividend 2013	30 September 2013

Dividends can be paid to shareholders by means of BACS (Bankers' Automated Clearing Services). Mandate forms for this purpose are available on request from the Company's registrars.

Shareholder Event

Please note that all general meetings of the Company are held in Jersey. You may wish to contact the Company Secretary at the registered office if you would like directions to the AGM venue.

The Board recognises that many shareholders are unable to travel to Jersey, but would like to meet a member of the Board and hear from the Portfolio Managers on a regular basis.

Henderson has therefore arranged a Shareholder Event to be held on Tuesday 19 March 2013 at 10.30am. The event will provide the opportunity for the Portfolio Managers to give a presentation on the investment strategy and performance. The event will include light refreshments.

If you wish to attend, please return the yellow card which is enclosed with this Report.

Quotation of shares

The market price of the Company's Ordinary shares can be found in the Financial Times.

The London Stock Exchange Daily Official List (SEDOL) code is: B1Y1NS4. The International Security Identification Number is: JE00B1Y1NS49. The EPIC code is HDIV.

Shareholder information

Copies of this Report and other documents issued by the Company are available from the Company Secretary.

If needed, copies can be made available in a variety of formats, either Braille or larger type as appropriate.

Nominee share code

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

Investors in Halifax Share Dealing Limited products receive all shareholder communications. A form of instruction is provided to facilitate voting at general meetings of the Company.

Keeping up to date with Henderson Diversified Income

Website

Details of the Company's share price and net asset value, together with other information about the Company, can be found on the Henderson website. The address is:
www.hendersondiversifiedincome.com

HGi

HGi is a content platform provided by Henderson that offers a new level of 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/gsz

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Investor Information
continued

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Paul Manduca (Chairman)
Helen Green
Nigel Parker
David Smith

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Henderson Global Investors Limited
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Secretary
BNP Paribas Securities Services Fund Administration Limited
represented by Jeremy Hamon

BNP Paribas Securities Services Fund Administration Limited is regulated by the Jersey Financial Services Commission.

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The Company is a member of

aic
The Association of Investment Companies

London Stock Exchange
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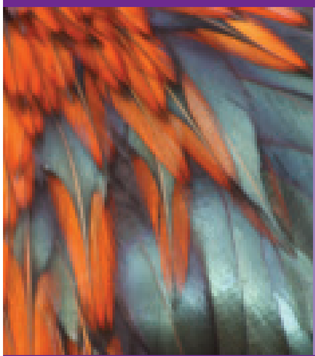

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