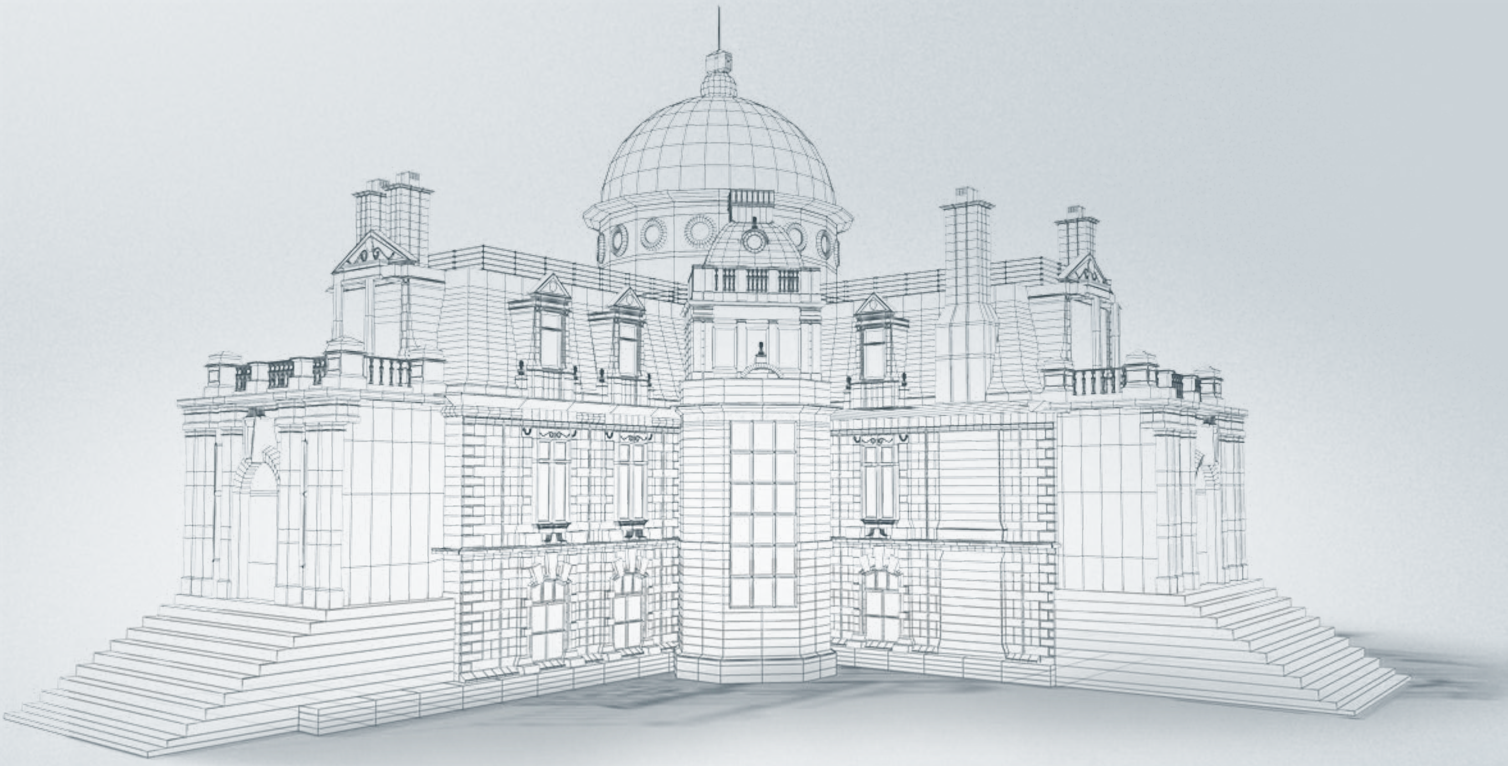
HENDERSON HIGH INCOME TRUST PLC

Annual Report 2015



MANAGED BY
Henderson
GLOBAL INVESTORS

Henderson High Income Trust plc – Annual Report for the year ended 31 December 2015

HGI9212/2015

Contents

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

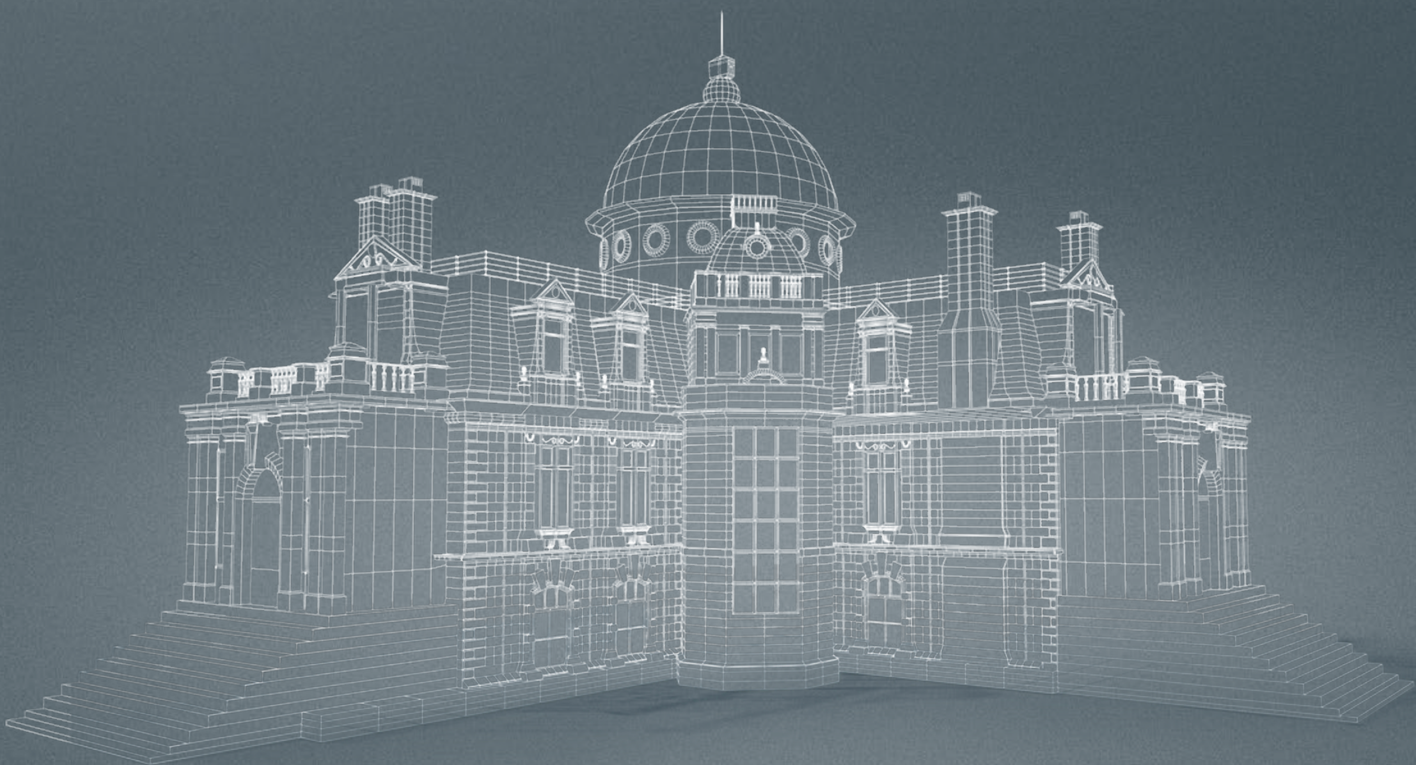
Strategic Report

Investment objective

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

Investment strategy

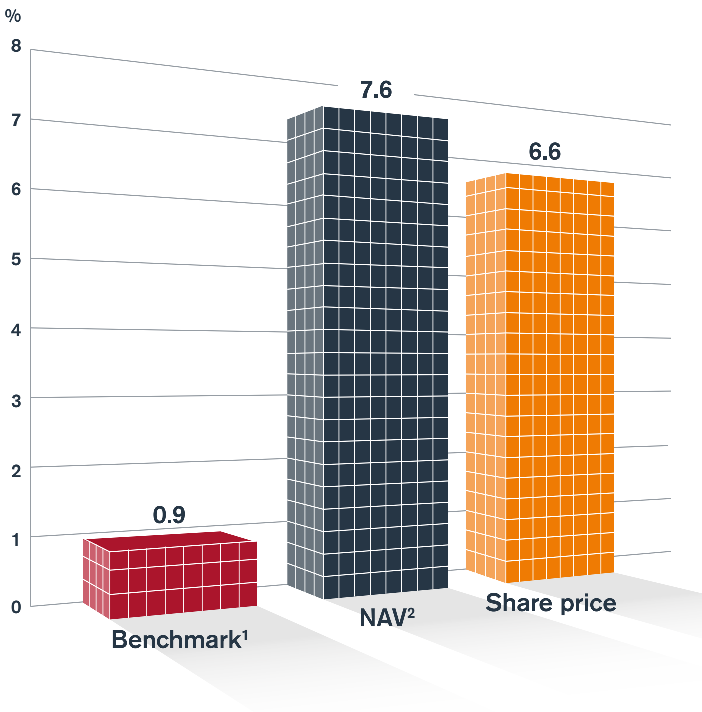
A substantial majority of the Company's assets are currently invested in ordinary shares of listed companies with the balance in listed fixed interest stocks. The Company invests predominantly in companies listed in the UK and does not expect to invest more than 20% of total assets in non-UK listed companies. The selection process seeks to identify companies with strong balance sheets that are capable of paying dividends. There is a focus on well-managed companies whose qualities may have been temporarily overlooked and which offer potential for capital appreciation over the medium term. The Company has an active policy of using appropriate levels of gearing.



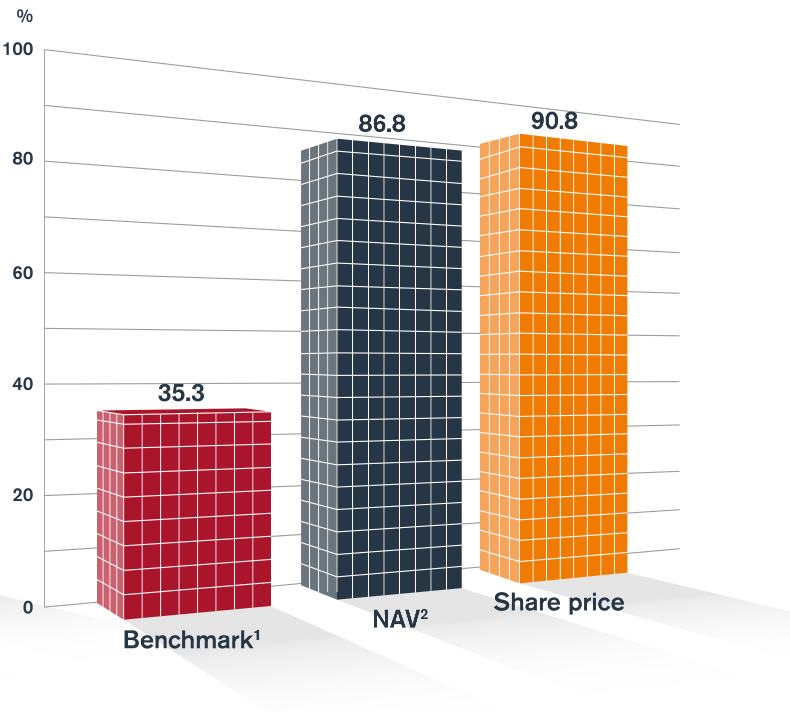
Strategic Report: Performance Highlights

Total return performance to 31 December 2015

One year

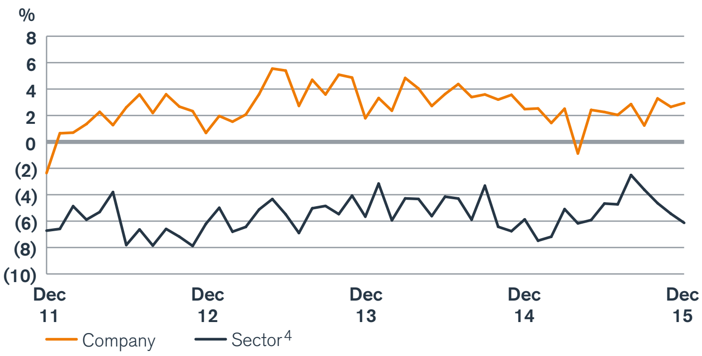


Five years



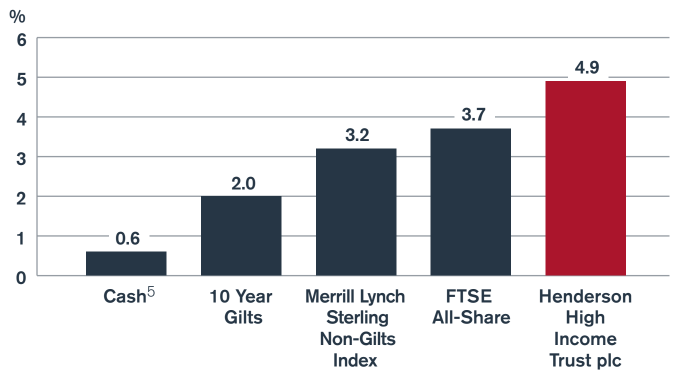
Premium/(discount) to 31 December 2015[3]

Five years



Net dividend yield

as at 31 December 2015



Attribution – explanation of movement in net asset value (total return) in 2015

Strategic Report: Performance Highlights (continued)

NAV per share (debt at par value)

2015 177.47p

2014 173.57p

Mid-market price per share

2015 180.50p

2014 177.88p

Revenue return per share

2015 9.96p

2014 9.24p

Net assets

2015 £197.1m

2014 £189.0m

Dividend for the year

2015 8.90p

2014 8.60p

Dividend yield[6]

2015 4.9%

2014 4.8%

Ongoing charge for the year[7]

2015 0.79%

2014 0.72%

Net gearing

2015 22.7%

2014 22.7%

1 The benchmark is a composite of 80% of the FTSE All-Share Index (total return) and 20% of the Merrill Lynch Sterling Non-Gilts Index (total return) rebalanced annually
2 Net asset value per share total return (including dividends reinvested and excluding transaction costs)
3 Graph provided uses AIC based calculations
4 The AIC Equity and Bond Income sector
5 Cash based on 3 month LIBOR
6 Based on the dividends paid or recommended for the year and the share price at the year end
7 The ongoing charge excludes the performance fee. The charge including the performance fee was 1.42% (2014: 1.59%)

A glossary of terms is included on pages 20 and 21

Sources: Morningstar Direct, Henderson, DataStream, AIC. All data is either as at 31 December 2015 or for the year ended 31 December 2015.

Strategic Report: Business Model

Investment objective

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

Investment policy

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

Investment strategy

A substantial majority of the Company's assets are currently invested in ordinary shares of listed companies with the balance in listed fixed interest stocks. The Company invests predominantly in companies listed in the UK and does not expect to invest more than 20% of total assets in non-UK listed companies. The selection process seeks to identify companies with strong balance sheets that are capable of paying dividends. There is a focus on well-managed companies whose qualities may have been temporarily overlooked and which offer potential for capital appreciation over the medium term. The Company has an active policy of using appropriate levels of gearing.

Management

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

On 30 July 2015 David Smith was appointed as the Company's Fund Manager after co-managing the portfolio with Alex Crooke since January 2014. Alex Crooke is now the Deputy Fund Manager.

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

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

Management fee

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

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

Performance fee

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

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

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

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

Strategic Report: Chairman's Statement

The Chairman of the Company, Hugh Twiss, MBE, reports on the year to 31 December 2015

Performance

It is particularly pleasing for me this time to be able to report another year of outperformance. Firstly, because this is our Fund Manager David Smith's first report as sole Fund Manager and marks a successful start to this important role. Secondly, because as reported later, this is my last report to you as Chairman and obviously it is satisfying to be able to go out on a good note. Against a challenging market background, David has produced a very commendable outcome for the year of a share price total return of 6.6% compared to our benchmark of only 0.9%. This performance is consistent with that seen during my period as Chairman, as we have significantly outperformed our benchmark over the nine years since I was appointed, with a share price total return of 78% compared to our benchmark's 56% and the FTSE All-Share Index's return of only 47%. Whilst I can claim no personal credit for this performance which is the result of the fine management of David and his predecessor Alex Crooke, it does, in my view, underline the merits of an investment trust company (like ours) with the benefit of a well balanced and independent board. I will leave it to David to explain in his report how he has achieved this performance, but he deserves both our praise and our thanks and the payment to Henderson under our performance-related fee arrangement is again fully justified.

Dividends

At the interim stage I was again delighted to be able to announce a further modest increase of 3.5% in our dividend which was in excess of the then prevailing consumer price inflation rate of 0.4%. Shareholders will know from my previous comments that it is the Board's aspiration to continue gradually increasing the dividend so long as we have confidence that any such increase will be sustainable in the years ahead. In any event, we will continue to keep the level of our dividend under review as the year unfurls and in light of our actual experience and the investment conditions at the time.

Gearing

As I reported in my interim statement, we have issued a £20m fixed rate 19 year unsecured private placement note at a rate of 3.67%. The resultant blend of long and short-term borrowings with fixed and floating rates will provide an important element of security and flexibility for the Company in the future. At the same time we have agreed an extension of our existing loan facility, but for a reduced amount to reflect our new fixed rate borrowings. Despite these moves, there has been no change in the Company's policy on the use of gearing, as set out in the Investment Policy on page 4 of the Annual Report.

Issue of new shares

As Shareholders will be aware, our shares have traded at a premium to their net asset value for most of the year, indeed at the end of the year, the share price was on a 1.7% premium. This has been as a result of a steady demand for our shares in the market and, therefore, we have issued 2,185,078 new shares in the course of the year to meet this demand. This has been within the authority granted to the Board by Shareholders at the last Annual General Meeting and is consistent with our policy of wishing to see the Company grow. This we believe is to the benefit of our existing Shareholders. As we are issuing shares at a premium, NAV is enhanced. The liquidity of the shares is also improved and fixed costs are spread over a wider base. We will again be asking Shareholders to renew this authority at the forthcoming Annual General Meeting.

Board changes

Both Vivian Bazalgette and I will be retiring from the Board on the conclusion of the forthcoming Annual General Meeting. The Company has been very fortunate to have had Vivian as a Director since 2004 and to have benefited from his considerable experience and wise counsel. Those of us lucky enough to have sat around the boardroom table with him have not just benefited from his contribution, but much enjoyed the wry humour with which it has so often been enhanced. It has always been my belief, strengthened by my experience, that serious matters under discussion and important decisions that need to be taken, can often be assisted by an occasional injection of humour. Vivian and other Directors are past masters at injecting such humour and I must thank them all for this and their unfailing support and good sense. At the same time the job has been made much easier by having the support of Alex Crooke and David Smith as our Fund Managers, as well as other members of the Henderson team. It has been a privilege to have been Chairman and, thanks to everyone that I have worked with, it has also been a very enjoyable experience.

Strategic Report: Chairman's Statement (continued)

I am delighted to announce that my colleagues have chosen Margaret Littlejohns to take over from me as Chairman. They, like me, have come to recognise and appreciate her qualities. Margaret will make an excellent Chairman and will be ably supported by her colleagues and the Henderson team. At the same time the Board has invited Zoe King to become an independent non-executive Director with effect from 1 April 2016. Zoe is currently a director of Smith & Williamson Investment Management Limited, a leading private client manager. Zoe will bring her experience of investment and other relevant matters to the benefit of the Company. You will be asked to elect her at the Annual General Meeting, as well as to re-elect Andrew Bell and I would urge you to join me in doing so.

Prospects and outlook

I highlighted in my last statement that I thought our Fund Manager was going to find markets increasingly challenging and that positive total returns, such as we have enjoyed in recent years, were likely to be much harder to achieve, although there were no apparent reasons to believe that the all-important income part of the return would not be maintained. In the light of the recent market weakness and the various uncertainties, such as 'Brexit' and Chinese GDP, that we face, this is proving to be all too true, although I remain confident that David will rise to the challenges, particularly in regards to income.

I am not going to try and predict the outlook, but when I look back over my rather longer than I care to remember time as an investor, I am struck by three things. Firstly, I have made more money when I have stuck to my longer term view, but taken advantage of any shorter term weakness. Secondly, I have benefited from investing almost exclusively in well run investment trusts which have been able to avoid the ruination of redemptions. And lastly, I have invested predominantly in trusts with an income bias. This Company has been, and will continue to be, one of my core holdings and I look forward to it helping me to enjoy a hopefully long and active retirement.

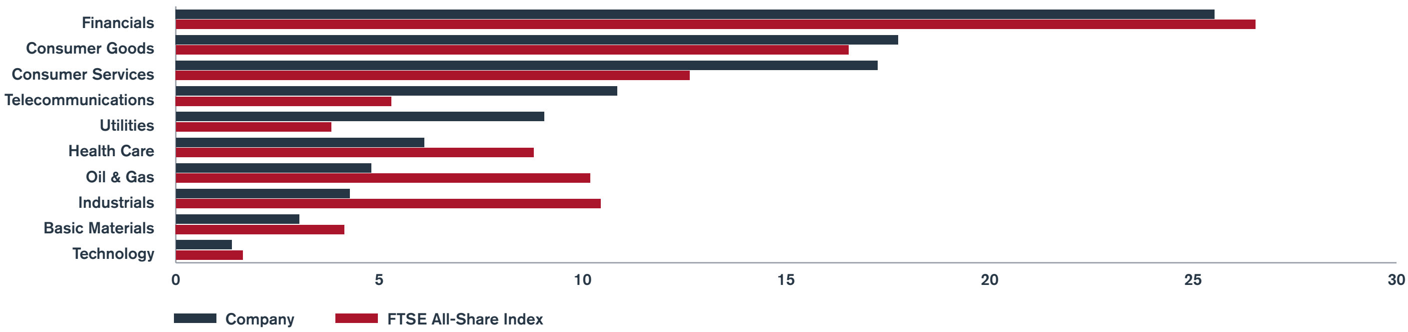
Strategic Report: Portfolio Information

Sector exposure at 31 December

Excluding cash

Sector	2015 £'000	2015 Percentage of portfolio	2014 £'000	2014 Percentage of portfolio
Financials	54,708	22.6	58,550	25.2
Consumer Goods	38,427	15.9	29,847	12.9
Consumer Services	37,349	15.4	30,367	13.1
Fixed Interest	25,220	10.5	25,484	11.0
Telecommunications	23,475	9.7	21,186	9.1
Utilities	19,600	8.1	20,958	9.1
Health Care	13,217	5.5	11,653	5.0
Oil & Gas	10,396	4.3	12,962	5.6
Industrials	9,993	4.1	11,595	5.0
Basic Materials	6,565	2.7	6,914	3.0
Technology	2,962	1.2	2,286	1.0
Total	**241,912**	**100.0**	**231,802**	**100.0**

Sector underweights/overweights[1]



Ten largest investments at 31 December

Position	Company	Sector	Fair value 2015 £'000	Percentage of portfolio 2015	Fair value 2014 £'000	Percentage of portfolio 2014
1	British American Tobacco	Consumer Goods	9,529	3.9	8,845	3.8
2	AstraZeneca	Health Care	9,335	3.9	7,110	3.1
3	BT	Telecommunications	7,500	3.1	6,384	2.8
4	National Grid	Utilities	7,171	3.0	7,023	3.0
5	Diageo	Consumer Goods	6,860	2.8	1,849	0.8
6	Legal & General[2]	Financials	6,826	2.8	6,670	2.9
7	Imperial Tobacco	Consumer Goods	6,067	2.5	4,341	1.9
8	Vodafone	Telecommunications	5,980	2.5	6,025	2.6
9	HSBC[2]	Financials	5,844	2.4	5,861	2.5
10	Galliford Try	Consumer Goods	5,663	2.3	5,616	2.4
Total			**70,775**	**29.2**	**59,724**	**25.8**

1 Chart uses end of period weights (equity portfolio only)
2 Includes fixed interest

Strategic Report: Investment Portfolio (continued)

Investments: Fixed interest

	Total 31 December 2015 £'000
Preference Shares	
General Accident 8.875%	1,120
Middlefield Canadian Inc 7%	566
National Westminster Bank 9%	685
Nationwide Building Society 10.625%	1,680
Total Preference Shares	**4,051**

	£'000
Other Fixed Interest	
AA 5.5% 2022	1,992
Auris 8% 2023	966
Aviva 6.125% Perpetual	1,035
AXA 5.625% 2054	647
BUPA 6.125% 2049	1,224
CCO Holdings 5.875% 2027	304
CPUK Finance 7% 2020	1,396
Credit Suisse 7.5% Perpetual	1,396
Daily Mail & General Trust 6.375% 2027	176
HSBC Bank 5.844% 2049	680
Legal & General 5.5% 2064	1,470
Prudential 5% 2055	399
Prudential 5.7% 2063	994
RBS Capital Trust 6.425% Perpetual	446
RI Finance Bonds No3 6.125% 2028	476
Service Corporation International 8% 2021	1,259
Standard Life 6.75% Perpetual	947
Tesco 5.5% 2033	1,007
UBS 7% Perpetual	1,507
Unitymedia 6.125% 2025	737
Verizon Communications 6.55% 2043	604
Virgin Media 6.25% 2029	1,507
Total Other Fixed Interest	**21,169**
TOTAL FIXED INTEREST	**25,220**

Investments: Equities

(including convertibles and investment funds)

OIL & GAS	Total 31 December 2015 £'000
Oil & Gas Producers	
BP	5,194
Royal Dutch Shell	5,202
Total Oil & Gas	**10,396**

BASIC MATERIALS	£'000
Chemicals	
Victrex	1,478
Mining	
BHP Billiton	2,374
Rio Tinto	2,713
Total Basic Materials	**6,565**

INDUSTRIALS	£'000
Aerospace & Defence	
BAE Systems	2,227
Senior	1,115
Construction & Materials	
Balfour Beatty*	754
Marshalls	1,677
General Industrials	
Smith (DS)	2,010
Industrial Transportation	
Goldenport (Greece)	3
Support Services	
Connect	815
De La Rue	997
Premier Farnell*	395
Total Industrials	**9,993**

CONSUMER GOODS	£'000
Beverages	
Diageo	6,860
Food Producers	
Cranswick	1,931
Dairy Crest	1,657
Hilton Food	2,855
Tate & Lyle	1,452
Household Goods & Home Construction	
Galliford Try	5,663
Persimmon	2,413
Tobacco	
British American Tobacco	9,529
Imperial Tobacco	6,067
Total Consumer Goods	**38,427**

HEALTH CARE	£'000
Pharmaceuticals & Biotechnology	
AstraZeneca	9,335
GlaxoSmithKline	3,882
Total Health Care	**13,217**

*includes convertibles

Strategic Report: Investment Portfolio (continued)

Investments: Equities

(including convertibles and investment funds) (continued)

CONSUMER SERVICES	Total 31 December 2015 £'000
Food & Drug Retailers	
Tesco	523
General Retailers	
Majestic Wine	1,040
Marks & Spencer	2,465
Media	
Informa	3,310
ITV	2,447
Moneysupermarket.com	2,579
Pearson	3,000
RELX (Netherlands)	4,653
Sky	4,046
Travel & Leisure	
Compass	2,211
Go-Ahead Group	2,846
Greene King	2,750
The Hotel Corporation	9
Marston's	3,041
TUI AG	2,429
Total Consumer Services	**37,349**

TELECOMMUNICATIONS	£'000
Fixed Line Telecommunications	
BT	7,500
Kcom	2,056
Manx Telecom	1,280
Verizon Communications (United States)	2,335
Mobile Telecommunications	
Inmarsat	3,640
Tele2 (Sweden)	684
Vodafone	5,980
Total Telecommunications	**23,475**

UTILITIES	£'000
Electricity	
Drax	808
SSE	2,832
Gas, Water & Multiutilities	
Centrica	1,898
National Grid	7,171
Severn Trent	3,909
United Utilities	2,982
Total Utilities	**19,600**

FINANCIALS	Total 31 December 2015 £'000
Banks	
Barclays	2,814
HSBC	5,164
Lloyds Banking	3,195
Non-life Insurance	
Amlin	1,025
Jardine Lloyd Thompson	2,041
Life Insurance	
Chesnara	2,565
Legal & General	5,356
Phoenix	3,178
Standard Life	3,989
Real Estate Investment Trusts	
Big Yellow	1,180
Hammerson	1,918
Land Securities	1,942
Financial Services	
Brewin Dolphin	2,281
Intermediate Capital	2,766
Investec	2,307
Jupiter Fund Management	2,256
Paragon	1,254
Equity Investment Instruments	
Blackstone/GSO Loan Financing (Jersey)	1,347
Carador (Ireland)	2,575
Foresight Solar Fund	1,500
Greencoat UK Wind	1,429
John Laing Infrastructure	2,626
Total Financials	**54,708**

TECHNOLOGY	£'000
Software & Computer Services	
Sage	2,962
Total Technology	**2,962**
Total Equities	**216,692**

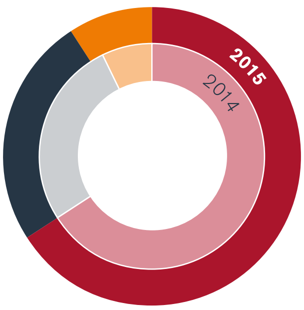
Strategic Report: Investment Portfolio (continued)

Classification of investments by sector

	Total 31 December 2015 %	Total 31 December 2014 %
FIXED INTEREST		
Preference Shares	1.7	1.8
Other Fixed Interest	8.8	9.2
Total Fixed Interest	**10.5**	**11.0**
EQUITIES		
Oil & Gas		
Oil & Gas Producers	4.3	5.6
Total Oil & Gas	**4.3**	**5.6**
Basic Materials		
Chemicals	0.6	–
Mining	2.1	3.0
Total Basic Materials	**2.7**	**3.0**
Industrials		
Aerospace & Defence	1.4	1.3
Construction & Materials	1.0	0.9
General Industrials	0.8	–
Industrial Engineering	–	0.6
Industrial Transportation	–	0.5
Support Services	0.9	1.7
Total Industrials	**4.1**	**5.0**
Consumer Goods		
Beverages	2.8	0.8
Food Producers	3.3	2.7
Household Goods & Home Construction	3.4	3.7
Tobacco	6.4	5.7
Total Consumer Goods	**15.9**	**12.9**
Health Care		
Pharmaceuticals & Biotechnology	5.5	5.0
Total Health Care	**5.5**	**5.0**
Consumer Services		
Food & Drug Retailers	0.2	0.3
General Retailers	1.4	1.8
Media	8.3	7.5
Travel & Leisure	5.5	3.5
Total Consumer Services	**15.4**	**13.1**
Telecommunications		
Fixed Line Telecommunications	5.4	4.8
Mobile Telecommunications	4.3	4.3
Total Telecommunications	**9.7**	**9.1**

	Total 31 December 2015 %	Total 31 December 2014 %
Utilities		
Electricity	1.5	2.0
Gas, Water & Multiutilities	6.6	7.1
Total Utilities	**8.1**	**9.1**
Financials		
Banks	4.6	3.3
Equity Investment Instruments	3.9	4.4
Financial Services	4.5	4.2
Life Insurance	6.2	7.7
Non-life Insurance	1.3	3.9
Real Estate Investment Trusts	2.1	1.7
Total Financials	**22.6**	**25.2**
Technology		
Software & Computer Services	1.2	1.0
Total Technology	**1.2**	**1.0**
TOTAL INVESTMENTS	**100.0**	**100.0**

Distribution of the UK equity holdings at 31 December



	2015 %	2014 %
Large Companies	66	66
Medium-sized Companies	25	27
Small Companies	9	7

Strategic Report: Fund Manager's Report

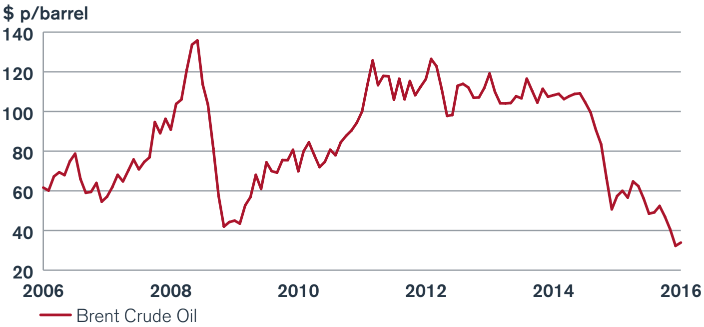
The Fund Manager of the portfolio, David Smith, reports on the year to 31 December 2015

Review of the year

Although the FTSE All-Share Index returned just 1.0% during the year, this masked increased volatility within equities. It's hard to believe that the FTSE 100 made all-time highs as recently as in April, before turning down during the summer months caused by fears over slowing economic growth in China and other emerging markets. Despite this, the Company performed strongly with the NAV total return of 7.6% versus the benchmark gain of 0.9%.

The oil price fell further during 2015, finishing the year at $35 per barrel, its lowest level since the height of the global financial crisis. In the US, unemployment reached a 40 year low which prompted the Federal Reserve to raise US interest rates for the first time since 2006. Although UK economic growth remained relatively robust, at 1.9% for 2015, expectations of interest rate hikes in the UK were pushed out, with consensus now not anticipating the first rise until 2017. Elsewhere, May saw a surprising outright majority win by the Conservatives at the UK General Election while in July the Chancellor, George Osborne, announced plans to introduce a national living wage, a compulsory minimum wage premium for all staff over 25 years of age.

The oil price continues to fall



Source: DataStream

During the year, the Company benefited from the outperformance of the equity portfolio combined with a positive contribution from gearing. The equity portfolio returned 7.9% compared with the FTSE All-Share Index gain of 1.0%. Commodity prices continued to fall during the year, which significantly impacted both the oil & gas and mining sectors. The portfolio's limited exposure to both sectors aided relative performance. Holdings in Moneysupermarket.com, Hilton Food and housebuilder, Galliford Try contributed positively to performance, with each company producing strong profit growth during the year. Elsewhere, the positions in the global satellite communication company, Inmarsat and Lloyd's insurers Amlin and Brit were beneficial to performance. Inmarsat confirmed the successful launch of its latest satellite, creating the first global high speed mobile broadband network, and announced contracts to provide inflight connectivity to two major airlines. Both Amlin and Brit were acquired by competitors in the period, as the non-life insurance sector consolidated further given the pressure on premium prices.

The fixed income portfolio returned 4.8%, outperforming the 0.7% gain from the Merrill Lynch Sterling Non-Gilts Index. The portfolio's exposure to corporate bonds of large, non-cyclical companies, such as US telecom, Verizon Communications, proved beneficial to performance. UK Government and investment grade corporate bonds significantly outperformed high yield bonds over the year, with the latter impacted by rising credit spreads in the mining and energy sectors, an area in which the bond portfolio has no holdings.

The income return over the year was strong, increasing by 7.8% to 9.96p per share. There was good underlying dividend growth from investments and the revenue account was boosted by a significant amount of special dividends earned. Intermediate Capital, Jupiter Fund Management, Amlin and Brit all returned excess cash to shareholders via special dividends. Whilst we foresee further special dividends this year, they are unlikely to be of a similar level to that earned last year. Strong dividend growth was seen across some of the Company's largest holdings, with BT, Galliford Try and professional publisher RELX (formerly Reed Elsevier) all increasing their dividends at a double digit rate. The Company raised its own full year dividend, for the third year running, to 8.9p, an increase of 3.5%.

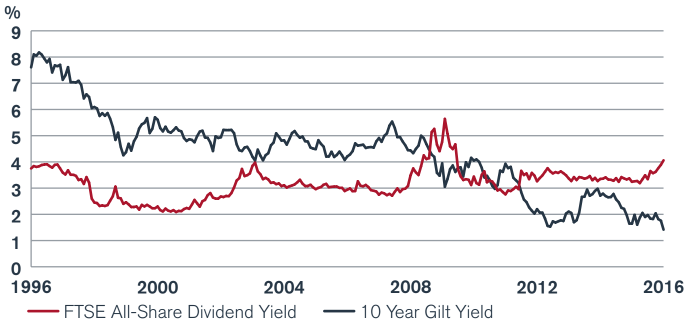
The Company's gearing level as a percentage of shareholders' funds remained relatively constant during the year (22.7%), however, the mix of borrowing changed. With the coupon rate on long-term debt for investment companies steadily falling, we decided to issue £20m of 19 year loan notes in July, thereby reducing our exposure to short-term bank financing. The attractive 3.67% coupon on these notes should benefit the Company in utilising gearing to enhance total returns in the long-term.

Portfolio activity

Throughout 2015 the Company maintained its preference for equities over bonds with 90% of the investment portfolio in equities. The UK equity market outperformed both Government and corporate bonds during the year and given the attractive yields on equities relative to bonds, this position has been maintained.

Strategic Report: Fund Manager's Report (continued)

Equities are attractive on a yield basis relative to bonds



Source: DataStream

In the equity portfolio we increased our holding in the global leading spirit company, Diageo, owner of valuable brands such as Johnny Walker, Smirnoff and Guinness. The management are focused on strengthening the operating performance of this business after a number of years of lacklustre growth and now with improving free cash flow, we believe cash returns to shareholders should increase. New positions in Greene King and the specialist chemical company, Victrex were initiated. Greene King has a high quality estate of food led pub restaurants and post the acquisition of the Spirit Pub Company, we believe the company can deliver good earnings and dividend growth. Victrex manufactures high performance plastics for industrial and medical applications and now that the company has come to the end of its recent investment phase, free cash flow is set to grow which should support increased dividends.

The Company initiated a position in Big Yellow, the UK's leading self-storage company. The company has good quality real estate with exposure to London and the South East and growth should accelerate as a result of an increased number of people moving houses. Together with the new development pipeline, strong earnings growth should be driven by improving rental yields as occupancy increases in their self storage sites.

Sales in the year included positions in engineer IMI and the interdealer broker Tullett Prebon. IMI supplies valves to the oil & gas and mining industries, hence profits are likely to be impacted by the large cuts to capital investment being made by key customers. Tullett Prebon has suffered recently from both structural and cyclical factors and despite the cyclical pressures easing, we don't believe the structural challenges are abating. We also reduced our exposure to the Lloyd's insurance sector following the acquisitions of Catlin, Amlin and Brit.

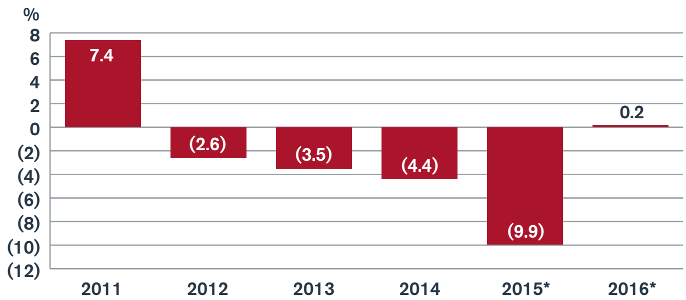
Within the fixed income portfolio we participated in a new high yield issue by Center Parcs. The bonds were issued at an attractive coupon for a stable business with a strong brand, benefiting from high occupancy and rebooking rates. We also initiated a position in the high yield bonds of US Cable company Charter Communications. The company continues to deliver solid subscriber trends driven by demand for high speed broadband services, while its proposed acquisition of Time Warner Cable will result in the combined entity becoming the second largest cable operator in the US. Elsewhere, we sold our positions in US Cinema operator Regal Entertainment and French utility company, EDF.

Outlook

Fears over the impact on global economic growth from slowing Chinese and emerging market economies are causing equity market weakness. However, in developed markets, economies continue to recover; unemployment is falling and the outlook for the consumer is robust with low interest rates and inflation. We continue to believe that a low to modest economic growth environment will persist. In the UK, with the EU referendum scheduled for June this year, 'Brexit' fears will add further volatility to equity markets as it approaches.

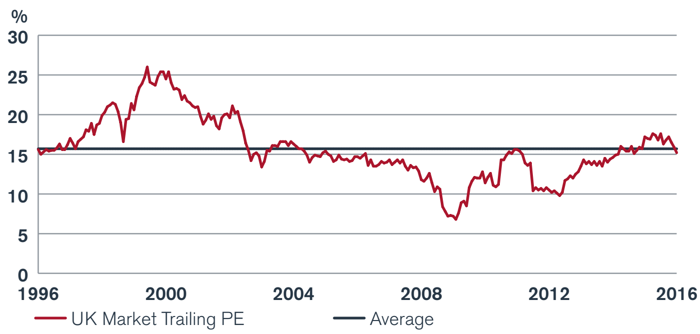
Aggregate market earnings growth has disappointed every year since the global financial crisis but despite this equity markets have been strong, buoyed by low interest rates and Quantitative Easing. This has led to a re-rating of UK equities to a valuation broadly in line with the long-term average. With modest economic growth and low inflation, strong earnings growth in 2016 (the likely driver of equity returns) seems doubtful.

Aggregate UK market earnings growth continually disappoints



Source: Citi
*Estimate

Equity valuations are in-line with their long-term average



Source: DataStream

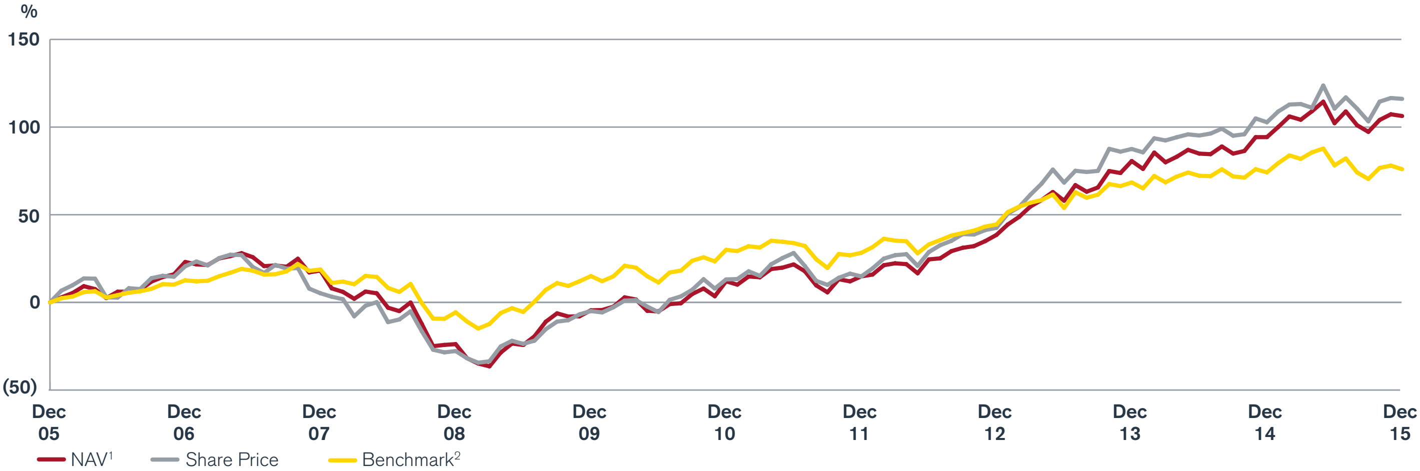
In this environment, it is important to select those companies that have the ability to grow earnings and dividends, as these should outperform. The Company has good exposure to these types of companies, while increased market volatility may present further opportunities. The Company remains well diversified, owning good quality companies we believe have the ability to pay and grow their dividends into the longer term. As a result we remain confident in the dividends of the underlying portfolio.

Strategic Report: Historical Performance and Financial Information

Total return performance to 31 December

	1 year %	3 years %	5 years %	10 years %
NAV[1]	7.6	51.1	86.8	110.8
Share Price	6.6	51.5	90.8	115.5
Benchmark Index[2]	0.9	21.9	35.3	73.0
FTSE All-Share Index	1.0	23.4	33.8	71.8
Merrill Lynch Sterling Non-Gilts Index	0.7	14.0	38.5	64.9

Total return performance over 10 years to 31 December 2015



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

Financial information

31 December	Net assets £'000	NAV p	Mid-market price per ordinary share p	Dividends per ordinary share/unit p
2006	126.6	181.7	177.3	7.91
2007	142.6	166.9	147.8	8.18
2008	87.8	102.7	95.0	8.30
2009	100.8	117.7	114.5	8.30
2010	112.7	126.7	124.8	6.23[3]
2011	108.9	121.4	118.5	8.30
2012	132.8	137.3	138.3	8.30
2013	175.3	169.7	172.8	8.40
2014	189.0	173.6	177.9	8.60
2015	**197.1**	**177.5**	**180.5**	**8.90**

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

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

Strategic Report: Directors' Biographies

Directors

The Directors appointed to the Board at the date of this Annual Report with the exception of Zoe King are:

Hugh Twiss, MBE

Position: Chairman of the Board and the Management Engagement Committee
Date of appointment: 1 October 2003 (Chairman on 2 May 2006).
Hugh has more than 40 years' investment experience, predominantly with the Flemings Group where he was a senior member of their investment management operation for many years, including responsibility for investment teams and other business issues, before retiring in 2001. He has had many years' involvement with investment trusts, including as a director, manager, major institutional shareholder and long-time personal investor. He is currently Chairman of INVESCO Income Growth Trust plc and is involved with various charities, including as a trustee of the Royal Navy & Royal Marines Charity as well as doing consultancy assignments, including working with Trust Associates.

Margaret Littlejohns

Position: Director
Date of appointment: 1 July 2008
Margaret joined Citigroup, accumulating 18 years of experience in both commercial and investment banking and developing particular expertise in derivatives and in credit and market risk management. She has also worked as an independent consultant in the commercial, charitable and academic sectors. Since 2004 she has established two new self-storage companies in the Midlands and is currently Finance Director and Company Secretary of The Space Place Self Storage (Telford) Ltd. In 2008 she was appointed as a non-executive director of JPMorgan Mid Cap Investment Trust plc. She is also a trustee of The Lymphoma Research Trust, a charity that funds research into lymphatic cancer. Margaret will become Chairman of the Company with effect from the close of the Annual General Meeting.

Vivian Bazalgette

Position: Director
Date of appointment: 1 November 2004
Vivian was Chairman of the Audit Committee from May 2006 until September 2008. His career as an investment specialist began over 35 years ago and included periods with James Capel, the stockbrokers, and Mercury Asset Management, before spending nearly 10 years at Gartmore where he became Managing Director of Pension Funds. In 1996 he joined M&G as Chief Investment Officer, retaining the same position until 2002 after M&G's acquisition by Prudential. He was also a director of M&G High Income Investment Trust plc. He is currently a non-executive director of Brunner Investment Trust plc, Perpetual Income and Growth Trust plc and Fidelity European Values PLC and an adviser to BAE Systems Pension Fund.

Andrew Bell

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

Anthony Newhouse

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

Janet Walker

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

Zoe King

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

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

Strategic Report: Corporate Information

Registered office
201 Bishopsgate
London
EC2M 3AE

Service providers

Alternative Investment Fund Manager
Henderson Investment Funds Limited
201 Bishopsgate
London
EC2M 3AE

Depositary and Custodian
HSBC Bank plc
8 Canada Square
London
E14 5HQ

Stockbrokers
JPMorgan Cazenove Limited
25 Bank Street
London
E14 5JP

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

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

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

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

Independent Auditor
Grant Thornton UK LLP
30 Finsbury Square
London
EC2P 2YY

Financial calendar

First interim dividend payable	29 April 2016
Annual general meeting[1]	3 May 2016
Second interim dividend payable	29 July 2016
Half year results	announced August 2016
Third interim dividend payable	28 October 2016
Fourth interim dividend payable	27 January 2017

1 At the Company's registered office at 12.00 noon

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

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

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

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

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

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

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

Strategic Report: Corporate Information (continued)

Status

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

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

Principal risks and uncertainties

The Directors have carried out a robust assessment of the principal risks facing the Company. They have drawn up a matrix of risks facing the Company and 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:

Principal Risks	Mitigation
Investment Risk Risk of long term underperformance of the Company against the benchmark and/or peer group. This could result in the shares of the Company trading at a discount and reduced liquidity in the Company's shares. Risk that borrowing facilities are not sufficient or attractive to enhance income returns and capital growth.	Henderson provides the Directors with regular investment management information including investment performance statistics against the benchmark and the peer group. The implementation of investment strategy and results of the investment process for which the fund manager is responsible are discussed with Henderson and reviewed at each Board meeting. The premium/discount and the trading volume of shares are also regularly reviewed, taking account of market conditions. The Company maintains close contact with its brokers to understand and regulate the supply and demand of shares. The Company undertakes regular reviews of its borrowing capacity, surveys the market and sources alternative quotes to ensure access to competitive rates.
Market/Financial Risk Risk that market conditions lead to a fall in the value of the portfolio (magnified by any gearing) and/or a reduction of income. This could result in loss of capital value for shareholders and/or a cut in the dividend payment.	The Directors review the portfolio regularly. The portfolio is diverse, containing a sufficient range of investments to ensure that no single investment puts undue risk on the sustainability of the income generated by the portfolio or indeed the capital value. Regard is also given to having a broad mix of companies in the portfolio, as well as a spread across a range of economic sectors. Henderson operates within investment limits and restrictions, including limits for gearing and derivatives. A monthly schedule of current positions against all established limits is reviewed by the Directors and Henderson confirms adherence to them each month. Any particular high risks are highlighted and discussed. A detailed analysis of all financial risks for the Company can be found in note 14 in the Annual Report. The Directors review the income statement and income forecasts at each meeting and monitor the Company's income reserves.

Strategic Report: Corporate Information (continued)

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

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

Viability statement

The Directors have assessed the viability of the Company over a five year period, taking account of the Company's current position and the potential impact of the principal risks and uncertainties documented in this Strategic Report.

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

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

The Directors recognise that there is a continuation vote due to take place at the Annual General Meeting following the 31 December 2019 year end. The Directors currently support the continuation of the Company and expect that the Company will continue to exist for the foreseeable future, at least for the period of the assessment. Based on this assessment, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the next five year period.

Borrowing

At 31 December 2015 the Company had a committed loan facility with Scotiabank of £30m which allows it to borrow as and when appropriate. The facility expires on 30 June 2018. The Company has issued a £20m fixed rate 19 year unsecured Private Placement Note at a final sterling coupon rate of 3.67%. Net borrowing as at 31 December 2015 was 22.7% (2014: 22.7%).

Future developments

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

Strategic Report: Corporate Information (continued)

Key performance indicators

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

KPI	Action
Dividend policy	The Board places a high level of importance on maintaining the Company's dividend payments. The aim is to maintain a suitable asset allocation that will permit a sustainable high level of dividend distributions to Shareholders with the potential to grow in the longer term. The Board reviews the Company's revenue account at every Board meeting, along with the appropriateness of its dividend payments. The Board also compares the yield on the Company's shares to other relevant sectors of the Association of Investment Companies ('AIC'). Shareholders must, however, recognise that dividend payments can never be guaranteed, and that circumstances could arise when it would be necessary to reduce or pass a dividend payment. The Board may from time to time decide to utilise some of the Company's reserves for dividends. Equally, there may be instances when the level of payment must be increased in order to comply with Section 1158 which requires an investment trust not to retain more than 15% of its total income. Where such instances would result in a payment going beyond the Board's policy, one-off 'special dividend' payments could be declared and paid.
Performance	At each Board meeting, the Board reviews the performance of the portfolio as well as the net asset value per share and share price of the Company. The Board also compares the performance of the Company against the benchmark. The Board has determined that this measure be used to calculate whether a performance fee is payable to Henderson. Further details of the arrangements with Henderson are given on page 4.
Premium/discount to net asset value ('NAV')	At each Board meeting, the Board monitors the level of the Company's premium or discount to NAV per share and reviews the average premium or discount for the AIC UK Equity and Bond Income sector. The Company publishes the 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.
Ongoing charge	The Board regularly reviews the ongoing charge and monitors all Company expenses. For the year ended 31 December 2015 the ongoing charge (excluding performance fee) was 0.79% (2014: 0.72%). Including performance fees, the charge was 1.42% in the year (2014: 1.59%).

Strategic Report: Corporate Information (continued)

Corporate responsibility

Responsible investment

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

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

Voting policy and the UK stewardship code

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

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

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

Employees, social, community, human rights and environmental matters

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

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

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

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

Board diversity

Currently, four of the Company's Directors are male and two are female. A further female Director is to join the Board with effect from 1 April 2016 and two male directors are to retire at the 2016 Annual General Meeting. The Directors consider diversity when making appointments to the Board, taking into account relevant skills, experience, knowledge and gender. The Company has no employees and, therefore, there is nothing further to report in respect of diversity within the Company.

For and on behalf of the Board

Hugh Twiss, MBE
Chairman
15 March 2016

Strategic Report: Glossary

Alternative Investment Fund Managers Directive ('AIFMD')

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

Association of Investment Companies ('AIC')

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

Benchmark

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

Custodian

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

Depositary

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

Derivative

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

Dividend dates

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

Gearing

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

Investment trusts

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

Liquidity

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

Market capitalisation

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

Strategic Report: Glossary (continued)

Net asset value ('NAV') per share

The value of the Company's assets (i.e. investments and cash held) less any liabilities (i.e. bank borrowings and debt securities) for which the Company is responsible, divided by the number of shares in issue. The aggregate NAV is also referred to as Shareholders' funds on the balance sheet. The NAV is published daily.

Ongoing charge

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

Premium/discount

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

Total return performance

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

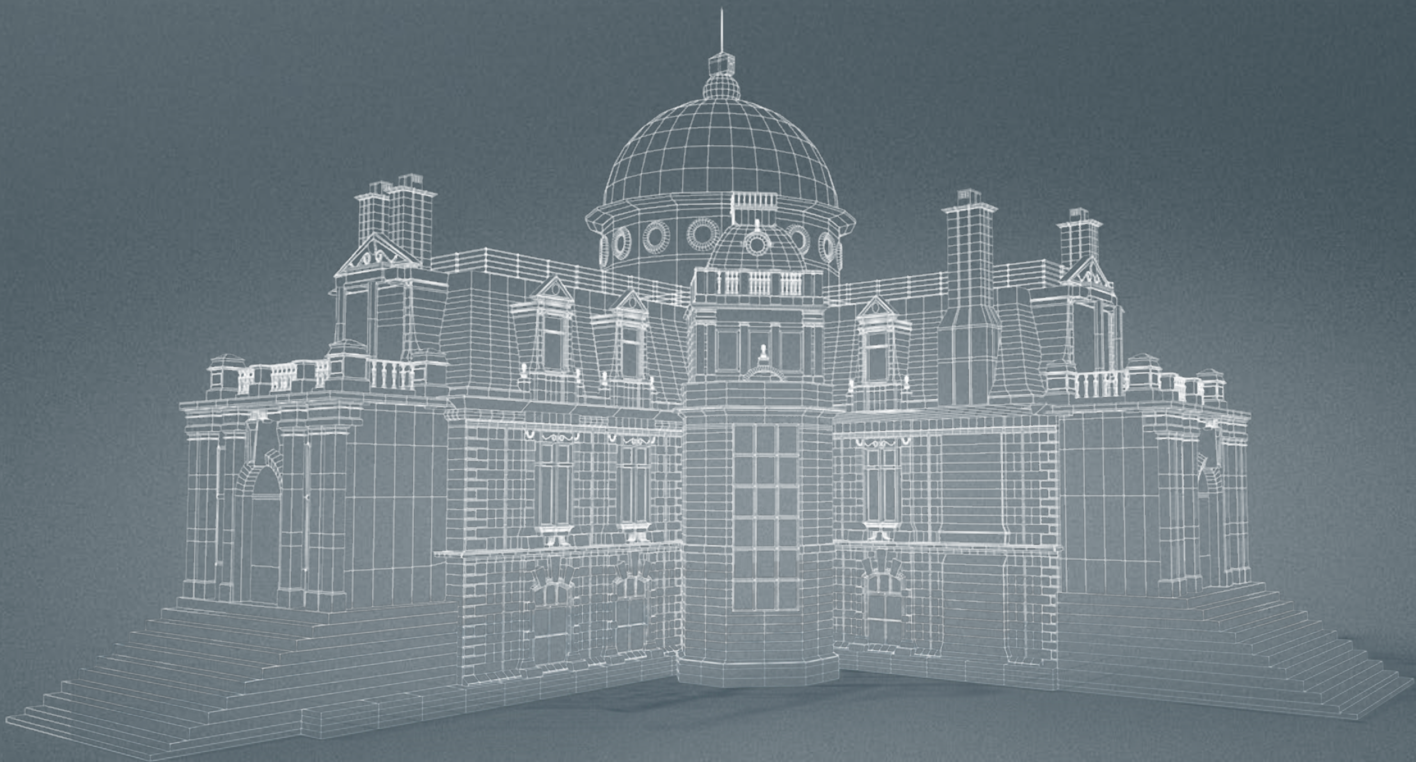
Treasury shares

Shares repurchased by the Company but not cancelled.

Yield

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

Corporate Report



Report of the Directors

The Directors present the audited financial statements of the Company and their Directors Report for the year from 1 January 2015 to 31 December 2015. The Company (registered in England & Wales on 21 March 1997 with company registration number 02422514) was active throughout the year under review and was not dormant.

Directors' remuneration and shareholdings

The Directors' Remuneration Report on pages 26 and 27 provides information on the remuneration and share interests of the Directors.

Directors' conflicts of interest

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

Related party transactions

The Company's transactions with related parties in the year were with the Directors and Henderson. There have been no material transactions between the Company and its Directors during the year and the only amounts paid to them were in respect of remuneration for which there were no outstanding amounts payable at the year end. In relation to the provision of services by Henderson, other than fees payable by the Company in the ordinary course of business and the provision of sales and marketing services there have been no material transactions with Henderson affecting the financial position of the Company during the year under review. More details on transactions with Henderson, including amounts outstanding at the year end, are given in note 19 on page 54.

Share capital

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

At the beginning of the year, there were 108,882,287 shares in issue. During the year, the Company issued 2,185,078 new ordinary shares (representing 2.0% of the number of shares in issue at the beginning of the year) to J.P. Morgan Cazenove (the Company's broker) at a price range of 173.00p to188.25p for total proceeds (net of commissions) of £3,949,000. As at 31 December 2015 the Company's share capital consisted of 111,067,365 ordinary shares. Since 1 January 2016 and up to 15 March 2016 a further 200,000 shares have been issued for a total consideration of £253,000. The number of shares in issue as at 15 March 2016 was 111,267,365.

Subject to annual Shareholder approval, the Company may purchase its own shares at a discount to net asset value per share. At the Annual General Meeting in May 2015 Shareholders gave the Board authority to buy back 16,388,909 ordinary shares during the following 15 months for cancellation. To date this authority has not been used.

Holdings in the Company's shares

Declarations of interests in the voting rights of the Company as at 31 December 2015 in accordance with the disclosure and transparency rules were as follows:

	% of voting rights
Investec Wealth & Investment Limited	3.32

No other changes have been notified between 1 January 2016 and 15 March 2016.

At 31 December 2015, 9.81% of the issued ordinary shares were held on behalf of participants in Halifax Share Dealing products run by Halifax Share Dealing Limited. The participants in this scheme are given the opportunity to instruct the relevant nominee company to exercise the voting rights appertaining to their shares in respect of all general meetings of the Company.

Annual general meeting

The annual general meeting will be held on Tuesday 3 May 2016 at 12 noon at the Company's registered office. The notice and details of the resolutions to be put to the annual general meeting are contained in the separate document being sent to Shareholders with this Annual Report.

Corporate governance

The Corporate Governance Statement, set out on pages 28 to 31 forms part of the Report of the Directors.

Report of the Directors (continued)

Directors' statement as to disclosure of information to the Auditor

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

Global greenhouse gas emissions

As an externally managed investment company, the Company has no greenhouse gas emissions to report from its operations for the year to 31 December 2015 (2014: same), nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

Listing Rule 9.8.4

Listing Rule 9.8.4 requires the Company to include certain information in a single identifiable section of the Annual Report or a cross reference table indicating where the information is set out. The Directors confirm that there are no disclosures to be made in this regard other than in accordance with Listing Rule 9.8.4(7) which is disclosed on page 23 in the share capital section.

By order of the Board

Henderson Secretarial Services Limited
Corporate Secretary
15 March 2016

Statement of Directors' Responsibilities

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

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Statement under DTR 4.1.12

Each of the Directors, who are listed on page 14 with the exception of Zoe King, confirms that, to the best of his or her knowledge:

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

For and on behalf of the Board

Hugh Twiss, MBE
Chairman
15 March 2016

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

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

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

Directors' Remuneration Report

Introduction

This Directors' Remuneration Report is submitted in accordance with Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in August 2013 (the 'Regulations'). The Directors' Remuneration Report also meets the relevant requirements of the Companies Act 2006 (the 'Act') and the Listing Rules of the Financial Conduct Authority and describes how the Board has applied the principles relating to Directors' remuneration. As required by section 439 of the Act, an ordinary resolution to approve the Directors' Remuneration Report will be proposed at the annual general meeting on 3 May 2016. The Company's remuneration policy was approved by Shareholders at the annual general meeting in 2014 in accordance with section 439A of the Act. No changes to the policy are currently proposed.

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

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

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

Remuneration policy

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

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

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

This policy has been in place since 1 January 2013 and will remain in place until the annual general meeting in 2017 unless it is amended by way of ordinary resolution put to Shareholders at a general meeting. The Board may amend the level of remuneration paid to individual Directors within the parameters of the remuneration policy.

Annual statement

As Chairman of the Board, Hugh Twiss, reports that Directors' fees were increased by 4.65% on 1 July 2015. This increase was made after consideration of the fees paid to other investment trusts in the sector of an equivalent size, as well as taking account of available independent research into fees. These increases were to ensure that the Directors are properly remunerated for their services to the Company and so that the Company can remain competitive when seeking new Directors. There have been no other major decisions on Directors' remuneration or any other changes to the remuneration paid to each individual Director in the year under review. Decisions on remuneration and the remuneration policy are made by the Board. A separate Remuneration Committee has not been established.

Directors' interests in shares (audited)

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

	Ordinary shares of 5p	
	31 December 2015	**31 December 2014**
Beneficial:		
Hugh Twiss	43,941	43,941
Vivian Bazalgette	10,000	10,000
Andrew Bell	30,000	30,000
Margaret Littlejohns	14,000	14,000
Anthony Newhouse	20,000	20,000
Janet Walker	6,000	6,000

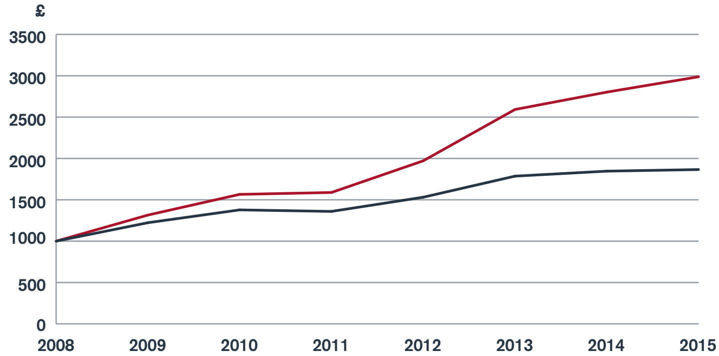
The interests of the Directors in the ordinary shares of the Company at the beginning and end of the financial year are shown in the table above.

Since the year end, Hugh Twiss has purchased 555 ordinary shares and Margaret Littlejohns has purchased 6,000 shares. There have been no other changes to the Directors' holdings in the period 1 January 2016 to 15 March 2016.

Directors' Remuneration Report (continued)

Performance

The graph comprises the mid-market price of the Company's ordinary shares over the seven year period ended 31 December 2015 with the Company's benchmark over the same period, assuming the notional investment of £1,000 on 31 December 2008 and the reinvestment of all dividends (excluding dealing expenses).



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

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

Directors' remuneration (audited)

The remuneration paid to the Directors who served during the years ended 31 December 2015 and 31 December 2014 was as follows:

	Year ended 31 December 2015 Total salary and fees £	Year ended 31 December 2014 Total salary and fees £	Year ended 31 December 2015 Total £	Year ended 31 December 2014 Total £
Hugh Twiss[1]	33,000	31,875	33,000	31,875
Vivian Bazalgette	22,000	21,250	22,000	21,250
Andrew Bell	22,000	21,250	22,000	21,250
Margaret Littlejohns[2]	25,000	21,250	25,000	21,250
Anthony Newhouse[2]	24,000	21,250	24,000	21,250
Janet Walker[3]	26,400	25,500	26,400	25,500
Total	**152,400**	**142,375**	**152,400**	**142,375**

Notes:

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

1 Chairman and highest paid Director

2 Margaret Littlejohns received a one off payment of £3,000 and Anthony Newhouse received a one off payment of £2,000 in the year under review, for their additional work on the management and performance fee negotiations with Henderson and the Company's private placement loan note. No other remuneration or compensation was paid or payable by the Company during the year to any of the current or former Directors or third parties specified by any of them

3 Chairman of the Audit Committee

Since 1 July 2015 the fees paid to the Directors have been: Chairman £33,750, Audit Committee Chairman £27,000 and Director £22,500.

Relative importance of spend on pay

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

	2015 £	2014 £	Change £
Total remuneration	152,400	142,375	10,025
Ordinary dividends paid during the year	9,639,537	9,009,046	630,491

Statement of voting at annual general meeting

At the 2015 annual general meeting 12,274,101 votes (97.1%) were received voting for the resolution seeking approval of the Directors' Remuneration Report, 136,050 (1.1%) were against, 227,685 (1.8%) were discretionary and 130,103 were withheld. At the 2014 annual general meeting 23,530,713 votes (96.8%) were received voting for the resolution seeking approval of the remuneration policy, 540,776 votes (2.2%) were against, 244,267 votes (1.0%) were discretionary and 898,964 were withheld. The percentage of votes excludes votes withheld.

For and on behalf of the Board

Hugh Twiss, MBE
Chairman
15 March 2016

Corporate Governance Statement

Applicable corporate governance codes

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

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

Statement of compliance

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

The UK Code includes provisions relating to:

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

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

Directors

Directors' appointment and retirement

The Board may appoint Directors to the Board without Shareholder approval. Any Director so appointed must stand for election by the Shareholders at the next annual general meeting in accordance with the articles of association. Zoe King has been appointed to the Board with effect from 1 April 2016 and will therefore stand for election by the Shareholders at the annual general meeting on Tuesday 3 May 2016.

The AIC Code states that any Director who has served for more than nine years is subject to annual re-election. Andrew Bell is therefore required to seek re-election to the Board at the 2016 annual general meeting. Hugh Twiss and Vivian Bazalgette have indicated that they do not wish to offer themselves for re-election and so will retire with effect from the close of the annual general meeting.

The contribution and performance of Andrew Bell was reviewed by the Nominations Committee at its meeting in January 2016, which recommended to the Board his continuing appointment.

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

Board independence

All Directors have a wide range of other interests and are not dependent on the Company itself. At the Nominations Committee meeting in January 2016, the Directors reviewed their independence and confirmed that all Directors remain wholly independent of Henderson. There were no contracts subsisting during or at the end of the year in which a Director of the Company is or was materially interested and which is or was significant in relation to the Company's business.

Directors' professional development

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

Directors' insurance and indemnification

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

Board

Board composition

The Board currently consists of six non-executive Directors and the biographies of those holding office at the date of this Annual Report are included on page 14. Those details demonstrate the breadth of investment, commercial , legal, financial and professional experience relevant to their positions as Directors. All Directors served throughout the year.

Corporate Governance Statement (continued)

Responsibilities of the Board and its Committees

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

The Board is responsible for the approval of annual and half year results and other public documents and for ensuring that such documents provide a fair, balanced and understandable assessment of the Company's position and performance. The Directors confirm that they are satisfied that the Annual Report for the year ended 31 December 2015, taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's position and performance, business model and strategy.

At each meeting the Board reviews the Company's investment performance and considers financial analyses and other reports of an operational nature. The Board monitors compliance with the Company's objective and is responsible for setting asset allocation, investment and gearing limits within which Henderson has discretion to act and regularly reviews investment strategy. It has adopted a procedure for Directors to take independent professional advice in the furtherance of their duties at the expense of the Company.

In order to enable them to discharge their responsibilities, all Directors have full and timely access to relevant information.

Committees of the Board

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

Audit Committee

The Audit Committee is chaired by Janet Walker. The Report of the Audit Committee, which forms part of their Corporate Governance Statements can be found on pages 32 to 34.

Nominations Committee

All Directors are members of the Nominations Committee, which is chaired by Anthony Newhouse. The Nominations Committee is responsible for reviewing Board succession planning and tenure policy, the performance of the Board as a whole and its Committees and the recommendation to the Board on the appointment of new Directors through an established formal procedure.

When considering succession planning, the Nominations Committee bears in mind the balance of skills, knowledge, experience, gender and diversity existing on the Board. The Nominations Committee considers diversity as part of the annual performance evaluation and it is felt that there is a range of backgrounds and each Director brings different qualities to the Board and its discussions.

Given the small size of the Board, it is not considered appropriate for the Company to have set targets in relation to diversity; candidates will be assessed in relation to the relevant needs of the Company at the time of appointment. The Nominations Committee will make recommendations to the Board when the recruitment of additional non-executive Directors is required. Once a decision is made to recruit additional Directors to the Board, a formal job description is drawn up. The Company may use external agencies as and when the requirement to recruit an additional Board member becomes necessary.

The Nominations Committee also reviews and recommends to the Board the Directors seeking re-election at the annual general meeting. Recommendation is not automatic and will follow a process of evaluation of each Director's performance and consideration of the Director's independence. The Nominations Committee also takes into account the mix of skills and experience of the current Board members. In accordance with the UK Code any Director serving for longer than six years would be subject to particularly rigorous assessment of his or her contribution.

The Nominations Committee met in January 2016 to carry out its annual review of the Board, its composition and size and its Committees. At a further meeting of the Committee held in March 2016 it recommended to the Board the appointment of Zoe King (whose biography is on page 14) to the Board with effect from 1 April 2016 following a recruitment process which involved the use of a recruitment agency, Fletcher Jones Ltd, to find an investment and fund management professional to ensure the correct balance of skills and expertise on the Board following the retirement of Vivian Bazalgette and Hugh Twiss from the Board at the 2016 annual general meeting. Fletcher Jones Ltd is not connected or related to the Company. The Nominations Committee also discussed who would succeed Hugh Twiss as Chairman and agreed to recommend to the Board that Margaret Littlejohns should take this role.

Performance evaluation

The performance of the Company is considered in detail at each Board meeting. In the year under review the Board has conducted a review of its own performance, together with that of its Committees, the Chairman and each individual Director. This was conducted by the Chairman contacting each Director about the Board's performance and each Director's contribution. Mr Bazalgette contacted each Director about the performance of the Chairman. It was concluded that the evaluation findings demonstrated that the Board as a whole, had a broad range of skills including commercial, legal, investment, financial and other industry experience, as well as being diverse in terms of background and gender. Each Director brought different qualities to the Board and its discussions. In particular, the Board operated effectively and the current composition of the Board was in the best interests of the Company and its Shareholders and that all the Directors, notwithstanding their time as a Director, were considered to be independent. The Chairman demonstrated effective leadership and created the conditions for overall Board effectiveness by setting clear expectations concerning the Company's culture and values and shaping the style and tone of Board discussions. The Nominations Committee therefore recommended to the full Board that the Director seeking re-election at the Company's 2016 annual general meeting merits re-election by the Shareholders.

Corporate Governance Statement (continued)

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

Management Engagement Committee
All Directors are members of the Management Engagement Committee, which is chaired by the Chairman of the Board.

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

The Committee met in November 2015 to carry out its annual review of Henderson, the results of which are detailed on page 31.

Board attendance
The following table sets out the number of Board and Committee meetings held during the year under review and the number of meetings attended by each Director. All Directors attended the annual general meeting in May 2015.

	Board	AC	MEC	NC
Number of meetings	**7**	**3**	**1**	**2**
Hugh Twiss	7	3	1	2
Vivian Bazalgette	7	3	1	2
Andrew Bell	5	2	1	1
Margaret Littlejohns	7	3	1	2
Anthony Newhouse	6	3	1	1
Janet Walker	7	3	1	2

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

The Directors and Committees of the Board also met during the year to undertake business such as the approval of the Company's results and documentation in connection with the Company's Private Placement Note.

Internal controls and risk management
The Board has established an ongoing process for identifying, evaluating and managing any major risks faced by the Company. The process accords with advice issued by the Financial Reporting Council and is subject to regular review by the Board. The Board has overall responsibility for the Company's system of internal controls and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate risks of failure to achieve the Company's business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board has reviewed the effectiveness of the Company's system of internal controls for the year ended 31 December 2015. During the course of its review the Board has not identified or been advised of any failings or weaknesses that have been determined as significant. All business risks faced by the Company are recorded in a risk map which is reviewed periodically.

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

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

Accountability and relationship with Henderson
The Statement of Directors' Responsibilities in respect of the financial statements is set out on page 25 and the Independent Auditor's Report on pages 35 and 38.

The Board has delegated contractually to external third parties, including Henderson, the management of the investment portfolio, the custodial services (which include the safeguarding of the assets which is delegated through the appointment of the Depositary as explained on page 20), the day-to-day accounting, company secretarial and administration requirements and registration services. Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of the services offered, including the control systems in operation in so far as they relate to the affairs of the Company.

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

Henderson takes decisions as to the purchase and sale of individual investments. Henderson also ensures that all Directors receive, in a timely manner, all relevant management, regulatory and financial information. Representatives of Henderson attend each Board meeting enabling the Directors to probe further on matters of concern. The Directors have access to the advice and services of the Corporate Secretary through its appointed representative who is responsible to the Board for ensuring that Board and Committee procedures are followed and that applicable rules and regulations are complied with. The proceedings at all

Corporate Governance Statement (continued)

Board and Committee meetings are fully recorded through a process that allows any Director's concerns to be recorded in the minutes. The Board and Henderson operate in a supportive, co-operative and open environment.

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

Continued appointment of Henderson

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

In addition to the monitoring of investment performance at each meeting, through the Management Engagement Committee an annual review is undertaken of the Company's investment performance over both the short and longer terms, together with the quality of other services provided by Henderson, including company secretarial and accounting.

The Board remains satisfied with investment performance and, in particular the experience, skills and commitment of the Fund Manager. It is the Directors' opinion that the continuing appointment of Henderson on the terms agreed with effect from 1 January 2016 is in the interests of the Company and its Shareholders as a whole.

Share capital

Please see the Report of the Directors on page 23.

Relations with Shareholders

Shareholder relations are given high priority by the Board. The prime medium by which the Company communicates with its Shareholders is through the half year results and Annual Report which aim to provide Shareholders with a clear understanding of the Company's activities and their results. This information is supplemented by the daily calculation and publication of the net asset value per share to a regulatory information service and a monthly fact sheet which is available on the website. Henderson also provides information on the Company and Fund Manager videos on the website, via various social media channels and through its HGi content platform, more details of which are included on page 15.

The Board considers that Shareholders should be encouraged to attend and participate in the annual general meeting. Shareholders have the opportunity to address questions to the Chairman of the Board, the Chairman of the Audit Committee and all other Directors at the meeting and the Fund Managers make a presentation to Shareholders. A summary of the proxy votes received on the resolutions proposed is displayed at the meeting and each substantial issue is dealt with in a separate resolution. It is the intention of the Board that the Annual Report and notice of annual general meeting be issued to Shareholders so as to provide at least 20 working days' notice of the annual general meeting. These documents will also be uploaded to the website. Shareholders wishing to lodge questions in advance of the meeting, or raise issues or concerns at any time, are invited to do so by writing to the Chairman at the registered office address given on page 15 of this Annual Report.

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

General presentations to both Shareholders and analysts follow the publication of the annual results. All communications between Henderson and Shareholders are reported to the Board.

By order of the Board

Henderson Secretarial Services Limited
Corporate Secretary
15 March 2016

Report of the Audit Committee

Composition

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

Meetings

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

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

Role and responsibilities

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

- consideration of the appropriateness of the Company's accounting policies;
- a review of the half year results and the Annual Report, including the disclosures made therein in relation to internal controls and risk management, viability, going concern and related parties and consideration of whether the Annual Report is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's position and performance, business model and strategy in order to make recommendations to the Board;
- consideration of the quality and effectiveness of the accounting records and management information maintained on behalf of the Company, relying on meetings with and reports from Henderson;
- consideration of the appropriate level of dividend to be paid by the Company for recommendation to the Board;
- consideration of the internal controls in place at Henderson and BNP Paribas Securities Services as administrator and Henderson's policies in relation to cyber risk and business continuity, meeting with representatives of Henderson's internal audit and risk departments periodically;
- consideration of the performance fee calculation;
- consideration of the key risks, risk management systems in place and the Company's risk map;
- consideration of the Company's anti-bribery policy;
- consideration of the nature and scope of the external audit and the findings therefrom;
- consideration of whether there is a need for an internal audit function in order to make a recommendation to the Board, as described on page 30;
- consideration of the appointment of the Auditor, and its effectiveness, performance and remuneration (see page 34);
- in assessing whether the report is fair, balanced and understandable, each Director reviewed the disclosures made, applying his or her respective knowledge and expertise. The internal controls over financial reporting were also considered, together with feedback from the Company's Auditor and the Corporate Secretary;
- consideration of the Auditor's independence and objectivity and the provision of any non-audit services (as explained further on page 34) and the reporting of the external Auditor; and
- consideration of the whistle blowing policy that Henderson has put in place for its staff to raise concerns about possible improprieties, including in relation to the Company, in confidence. The policy includes the necessary arrangements for independent investigation and follow up action.

Report of the Audit Committee (continued)

Annual Report for the year ended 31 December 2015

In relation to the Annual Report for the year ended 31 December 2015 the following significant issues were considered by the Committee:

Significant issues and audit matters	How it was addressed
Valuation and ownership of the Company's investments	Actively traded investments are valued using stock exchange prices provided by third party pricing vendors. Investments that are unquoted or not actively traded are valued using a variety of techniques to determine their fair value; all such valuations are reviewed by both Henderson's fair value pricing committee and by the Directors at least twice each year. Ownership of listed investments is verified by reconciliation to the Custodian's records; for unquoted investments, verification is via reconciliation to the records of the investee entities.
Recognition of income	Income received is accounted for in line with the Company's accounting policies (as set out in note 1e) on page 43) and is reviewed by the Audit Committee at each meeting.
Compliance with Section 1158 of the Corporation Tax Act 2010	The Committee considers the controls in place to ensure that the regulations for ensuring investment trust status are observed at all times.
Maintaining internal controls	The Audit Committee receives regular reports on internal controls from Henderson, BNP Paribas Securities Services and HSBC Securities Services, and has access to the relevant personnel of Henderson, BNP Paribas Securities Services and HSBC Securities Services, who have a responsibility for risk management and internal audit.
Correct calculation of the performance related fee	The year end performance related fee calculation is prepared by BNP Paribas Securities Services and reviewed by Henderson. It is reviewed in depth by the Audit Committee, all with reference to the management agreement.
Accounting treatment and financial statement disclosures	The Audit Committee discussed in detail the changes to FRS102, the Financial Reporting Standard applicable in the UK and Republic of Ireland, which is effective for periods commencing on or after 1 January 2015 and therefore the Company is obliged to report under this standard for the first time in this Annual Report. Following the application of the revised reporting standards, there has been no impact to the Company's Income Statement, Statement of Financial Position (previously called the Balance Sheet) or Statement of Changes in Equity (previously called the Reconciliation of Movement in Shareholders Funds) for periods previously reported. However the Audit Committee recommended to the Board that the Cash Flow Statement should be restated to comply with the new disclosure requirements of the revised reporting standard. This advice was followed and the revised Cash Flow Statement can be found on page 42.

Policy on non-audit services

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

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

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

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

Report of the Audit Committee (continued)

Auditor appointment

Grant Thornton UK LLP has been the Company's Auditor since 2007. Grant Thornton UK LLP merged with RSM Robson Rhodes LLP in 2007 and RSM Robson Rhodes LLP was appointed as the Company's Auditor in 2006. The Audit Committee is satisfied that the Auditor is independent of the Company.

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

The Audit Committee remains satisfied with the effectiveness of the audit provided by Grant Thornton UK LLP. At the Audit Committee meeting in March 2016, the Audit Committee assessed the performance of Grant Thornton UK LLP through discussions both with the Auditor present and privately, with the Fund Manager and the Company Secretary, to provide feedback on the audit process. On the basis of the Auditor's performance the Audit Committee recommended their continuing appointment to the Board. An audit tender process will be undertaken by the Audit Committee in 2016 to meet the new legislative requirements.

The Auditor has indicated its willingness to continue in office. Accordingly, resolutions to confirm the appointment of Grant Thornton UK LLP as Auditor to the Company and to authorise the Directors to determine its remuneration will be proposed at the Company's 2016 annual general meeting.

Fees paid or payable to the Auditor are detailed in note 6 on page 46.

For and on behalf of the Board

Janet Walker
Audit Committee Chairman
15 March 2016

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

Our opinion on the financial statements is unmodified

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2015 and of its net return for the year then ended;
- have been properly prepared in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Who we are reporting to

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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.

What we have audited

Henderson High Income Trust plc's financial statements for the year ended 31 December 2015 comprise the Income Statement, Statement of Changes in Equity, Statement of Financial Position, Cash Flow Statement and the related notes.

The financial reporting framework that has been applied in their preparation is United Kingdom Generally Accepted Accounting Practice including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland.'

Overview of our audit approach

- Overall materiality: £1,972,000, which represents 1% of the Company's net assets; and
- Key audit risks were identified as investments and investment income.

Our assessment of risk

In arriving at our opinions set out in this report, we highlight the following risks that, in our judgement, had the greatest effect on our audit:

Audit risk	How we responded to the risk
Investments The Company's business is investing in a portfolio of securities to provide a high and rising level of dividends as well as capital appreciation over the long term. Accordingly, the investment portfolio is a significant, material item in the financial statements. We therefore identified the recognition, existence and measurement of the investment portfolio as a risk that requires particular audit attention.	Our audit work included, but was not restricted to: ▪ Obtaining an understanding of the Company's manager's processes to recognise and measure investments including ownership of those investments; ▪ Obtaining a confirmation of investments held at the year end directly from the independent custodian; ▪ Testing the reconciliation of the custodian records maintained by the Company's administrator; ▪ Testing a selection of investment additions and disposals shown in the Company's records to supporting documentation; and ▪ Agreeing the valuation of quoted investments to an independent source of market prices. The Company's accounting policy on valuation of quoted investments is shown in note 1c and related disclosures are included in note 10. The Audit Committee identified valuation and ownership of the Company's investments as a significant issue in its report on page 33, where the Committee also described the action that it has taken to address this issue.

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

Audit risk	How we responded to the risk
Investment income Investment income is the Company's major source of revenue and is a significant, material item in the Income Statement. Accordingly, we identified the recognition of revenue from investments as a risk that requires particular audit attention.	Our audit work included, but was not restricted to: ▪ Assessing whether the Company's accounting policy for revenue recognition is in accordance with the Statement of Recommended Practice: 'Financial Statements of Investment Trust Companies and Venture Capital Trusts'; ▪ Obtaining an understanding of management's processes to recognise revenue in accordance with the stated accounting policy; ▪ Testing whether a sample of revenue transactions has been recognised in accordance with the policy; and ▪ For a sample of investments held in the period, confirming income that should have been received has been received and recorded and assessing whether any of the dividends receivable should have been treated as capital receipts. The Company's accounting policy on recognition of revenue is shown in note 1e and related disclosures are included in note 3. The Audit Committee identified recognition of income as a significant issue in its report on page 33, where the Committee also described the action that it has taken to address this issue.

Our application of materiality and an overview of the scope of our audit

Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our work and in evaluating the results of that work.

We determined materiality for the audit of the financial statements as a whole to be £1,972,000, which is 1% of net assets. This benchmark is considered the most appropriate because net assets, which is primarily composed of the Company's investment portfolio, is considered to be the key driver of the Company's total return performance.

We use a different level of materiality, performance materiality, to drive the extent of our testing and this was set at 75% of financial statement materiality. We also determine a lower level of specific materiality for certain areas such as the revenue column of the Income Statement, Directors' remuneration and related party transactions.

We determined the threshold at which we will communicate misstatements to the audit committee to be £98,600. In addition we will communicate misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

Overview of the scope of our audit

A description of the generic scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

We conducted our audit in accordance with International Standards on Auditing (ISAs) (UK and Ireland). Our responsibilities under those standards are further described in the 'Responsibilities for the financial statements and the audit' section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Company in accordance with the Auditing Practices Board's Ethical Standards for Auditors, and we have fulfilled our other ethical responsibilities in accordance with those Ethical Standards.

Our audit approach was based on a thorough understanding of the Company's business and is risk based, and in particular included:

- obtaining an understanding of the internal controls at the Company and its relevant third-party service providers;
- inspecting records and documents held by the Company and third-party service providers;
- review of reports on the description, design and operating effectiveness of internal controls at the relevant third-party service providers; and
- substantive testing of significant transactions, balances and disclosures, the extent of which was based on various factors such as our overall assessment of the control environment and management of specific risks.

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

Other reporting required by regulations

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules, we are required to review:

- the Directors' statements in relation to going concern and longer-term viability, set out on page 43 and 17 respectively; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the ten provisions of the UK Corporate Governance Code specified for our review.

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to report to you if:

- we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the annual report is fair, balanced and understandable; or
- the annual report does not appropriately disclose those matters that were communicated to the audit committee which we consider should have been disclosed; or
- we have nothing to report in respect of any of the above matters.

We also confirm that we do not have anything material to add or to draw attention to in relation to:

- the Directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the Company including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures in the annual report that describe those risks and explain how they are being managed or mitigated;
- the Directors' statement in the financial statements about whether they have considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- the Directors' explanation in the annual report as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

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

Responsibilities for the financial statements and the audit

What the directors are responsible for:

As explained more fully in the Statement of Directors' Responsibilities set out on page 25, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

What we are responsible for:

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

Julian Bartlett
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
15 March 2016

Income Statement

Notes		Year ended 31 December 2015 Revenue return £'000	Year ended 31 December 2015 Capital return £'000	Year ended 31 December 2015 Total £'000	Year ended 31 December 2014 Revenue return £'000	Year ended 31 December 2014 Capital return £'000	Year ended 31 December 2014 Total £'000
2	Gains on investments held at fair value through profit or loss	–	5,376	5,376	–	5,549	5,549
3	Income from investments held at fair value through profit or loss	12,067	–	12,067	10,758	–	10,758
4	Other interest receivable and similar income	27	–	27	126	–	126
	Gross revenue and capital gains	**12,094**	**5,376**	**17,470**	**10,884**	**5,549**	**16,433**
5	Management and performance fees	(469)	(1,949)	(2,418)	(387)	(2,139)	(2,526)
6	Other administrative expenses	(385)	–	(385)	(353)	–	(353)
	Net return on ordinary activities before finance costs and taxation	**11,240**	**3,427**	**14,667**	**10,144**	**3,410**	**13,554**
7	Finance costs	(206)	(616)	(822)	(150)	(449)	(599)
	Net return on ordinary activities before taxation	**11,034**	**2,811**	**13,845**	**9,994**	**2,961**	**12,955**
8	Taxation on net return on ordinary activities	(97)	67	(30)	(177)	148	(29)
	Net return on ordinary activities after taxation	**10,937**	**2,878**	**13,815**	**9,817**	**3,109**	**12,926**
9	Return per ordinary share	9.96p	2.62p	12.58p	9.24p	2.93p	12.17p

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

The notes on pages 43 to 55 form part of these financial statements

Statement of Changes in Equity

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

Notes	Year ended 31 December 2014	Called up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
	At 1 January 2014	5,166	80,754	26,302	58,594	4,532	175,348
	Net return on ordinary shares after taxation	–	–	–	3,109	9,817	12,926
15	Issue of new shares	278	9,444	–	–	–	9,722
	Fourth interim dividend (2.125p per share) for the year ended 31 December 2013, paid 31 January 2014	–	–	–	–	(2,186)	(2,186)
	First interim dividend (2.125p per share) for the year ended 31 December 2014, paid 30 April 2014	–	–	–	–	(2,226)	(2,226)
	Second interim dividend (2.125p per share) for the year ended 31 December 2014, paid 31 July 2014	–	–	–	–	(2,257)	(2,257)
	Third interim dividend (2.175p per share) for the year ended 31 December 2014, paid 31 October 2014	–	–	–	–	(2,340)	(2,340)
	At 31 December 2014	**5,444**	**90,198**	**26,302**	**61,703**	**5,340**	**188,987**

The notes on pages 43 to 55 form part of these financial statements

Statement of Financial Position

Notes		At 31 December 2015 £'000	At 31 December 2014 £'000
10	**Investments held at fair value through profit or loss**	241,912	231,802
	Current assets		
11	Debtors	1,349	1,362
	Cash at bank and in hand	1,223	1,860
		2,572	**3,222**
12	**Creditors: amounts falling due within one year**	(27,577)	(46,037)
	Net current liabilities	**(25,005)**	**(42,815)**
13	**Creditors: amounts falling due after more than one year**	(19,796)	–
	Net assets	**197,111**	**188,987**
	Capital and reserves		
15	Share capital	5,553	5,444
16	Share premium account	94,038	90,198
16	Capital redemption reserve	26,302	26,302
16	Other capital reserve	64,581	61,703
16	Revenue reserve	6,637	5,340
	Total shareholders' funds	**197,111**	**188,987**
17	Net asset value per ordinary share (basic and diluted)	177.47p	173.57p

The financial statements and corresponding notes on pages 43 to 55 were approved by the Board of Directors on 15 March 2016, and signed on its behalf by:

Hugh Twiss, MBE
Chairman

The notes on pages 43 to 55 form part of these financial statements

Cash Flow Statement

Notes		2015 £'000	2014 £'000 (restated – see note 1a)
	Cash flows from operating activities		
	Net return on ordinary activities before taxation	13,845	12,955
	Add back: finance costs	822	599
	Less: gains on investments held at fair value through profit or loss	(5,376)	(5,549)
	Withholding tax on dividends deducted at source	(29)	(29)
	Taxation recovered	1	15
	Decrease in prepayments and accrued income	12	98
	Increase/(decrease) in accruals and deferred income	121	(458)
	Net cash inflow from operating activities	**9,396**	**7,631**
	Cash flows from investing activities		
	Sales of investments held at fair value through profit or loss	39,240	35,622
	Purchases of investments held at fair value through profit or loss	(43,905)	(46,511)
	Net cash outflow from investing activities	**(4,665)**	**(10,889)**
	Cash flows from financing activities		
	Issue of ordinary share capital	3,949	9,722
	Equity dividends paid	(9,640)	(9,009)
	(Repayment)/drawdown of loans	(18,664)	4,799
	Issue of private placement notes	19,796	–
	Interest paid	(822)	(590)
	Net cash outflow from financing activities	**(5,381)**	**4,922**
	Net (decrease)/increase in cash and cash equivalents	(650)	1,664
	Cash and cash equivalents at beginning of year	1,860	184
	Exchange movements	13	12
	Cash and cash equivalents at end of year	**1,223**	**1,860**
	Comprising:		
	Cash at bank	**1,223**	**1,860**

The notes on pages 43 to 55 form part of these financial statements

Notes to the Financial Statements

1 Accounting policies

a) Basis of accounting

The Company is a registered investment company as defined in Section 833 of the Companies Act 2006. It operates in the United Kingdom and is registered at the address on page 15.

The financial statements have been prepared in accordance with FRS 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland, which is effective for periods commencing on or after 1 January 2015, and with the Statement of Recommended Practice: Financial Statements of Investment Trust Companies and Venture Capital Trusts ('the SORP') issued in November 2014. The Company has early adopted the amendments to FRS102 in respect of fair value hierarchy disclosures as published in March 2016.

Following the application of the revised reporting standards, there have been no significant changes to the accounting policies compared to those set out in the Company's Annual Report for the year ended 31 December 2014.

There has been no impact on the Company's Income Statement, Statement of Financial Position (previously called the Balance Sheet) or Statement of Changes in Equity (previously called the Reconciliation of Movements in Shareholders' Funds) for periods previously reported. The Cash Flow Statement previously reported has been restated to comply with the new disclosure requirements of the revised reporting standard.

The accounts have been prepared under the historical cost basis except for the measurement at fair value of investments. In applying FRS102, financial instruments have been accounted for in accordance with Section 11 and 12 of the standard. All of the Company's operations are of a continuing nature.

b) Going concern

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

c) Valuation of investments

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

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

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

d) Capital gains and losses

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

e) Income

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

f) Expenses

All expenses and finance charges are accounted for on an accruals basis. The Board's expectation is that over the long term three-quarters of the Company's investment returns will be in the form of capital gains. The Directors have determined that the proportion of the annual management fees that relates to the maintenance or enhancement of the valuation of investments is 80%. On this basis, the Company charges to capital 75% of that proportion (i.e. 60% of total management fees) and 75% of its finance costs. The balance of the management fees is charged to revenue. All performance fees are charged to capital. Expenses which are incidental to the acquisition of an investment are charged to the income statement and included within gains/losses on investments. Expenses which are incidental to the disposal of an investment are deducted from sale proceeds and go to the income statement indirectly.

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

g) Taxation

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

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

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

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

h) Foreign Currency

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

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

i) Borrowings

Interest-bearing bank loans, overdrafts and Private Placement Notes are recorded as proceeds received, net of direct issue costs. Finance costs, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the income statement, using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

j) Derivative financial instruments

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

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

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

k) Dividends payable to Shareholders

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

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

l) Capital and reserves

Share capital represents the nominal value of shares issued.

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

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

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

Capital reserve arising on investments sold

The following are accounted for in this reserve:

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

Capital reserve arising on investments held

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

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

	2015 £'000	2014 £'000
Gains on the sale of investments based on historical cost	8,721	5,633
Revaluation gains recognised in previous years	(7,551)	(5,145)
Gains on investments sold in the year based on carrying value at previous statement of financial position date	**1,170**	**488**
Net movement on revaluation of investments	4,277	5,126
Exchange losses	(71)	(65)
	5,376	**5,549**

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

	2015 £'000	2014 £'000
UK dividend income – listed	8,521	7,138
UK dividend income – special dividends	761	327
	9,282	**7,465**
Interest income – listed	1,236	1,401
Overseas dividend income – listed	1,549	1,892
	2,785	**3,293**
	12,067	**10,758**

Notes to the Financial Statements (continued)

4 Other interest receivable and similar income

	2015 £'000	2014 £'000
Bank interest	–	1
Underwriting commission (allocated to revenue)	27	44
Option premium income	–	81
	27	**126**

5 Management and performance fees

	2015			2014		
	Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
Management fee	469	703	1,172	387	580	967
Performance fee	–	1,246	1,246	–	1,559	1,559
Total fee	**469**	**1,949**	**2,418**	**387**	**2,139**	**2,526**

A summary of the terms of the management agreement is given on page 4 in the Strategic Report. An explanation of the split between revenue and capital is contained in accounting policy 1f) on page 43. A performance fee of £1,246,000 was earned during the year (2014: £1,559,000).

6 Other administrative expenses (including irrecoverable VAT)

	2015 £'000	2014 £'000
Directors' fees (see Directors' Remuneration Report on page 27)	152	142
Auditor's remuneration – for audit services	31	30
Depositary fees	24	10
Registrar fees	17	20
Sales and marketing expenses payable to the management company	54	54
Other expenses	107	97
	385	**353**

7 Finance costs

	2015			2014		
	Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
Interest on bank loans repayable within one year and on bank overdrafts	117	351	468	150	449	599
Interest on private placement notes	89	265	354	–	–	–
	206	**616**	**822**	**150**	**449**	**599**

Notes to the Financial Statements (continued)

8 Taxation on net return on ordinary activities

a)

	2015			2014		
	Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
Irrecoverable overseas tax	30	–	30	29	–	29
Tax relief on expenses charged to capital	67	(67)	–	148	(148)	–
Tax charge in respect of the current year	**97**	**(67)**	**30**	**177**	**(148)**	**29**

b) The standard rate of corporation tax in the UK changed from 21% to 20% with effect from 1 April 2015. Accordingly, the Company's profit for the accounting year is taxed at an effective rate of 20.25% (2014: 21.50%). The tax charge for the year is lower than the 20.25% effective rate of corporation tax in the UK for the year ended 31 December 2015 (2014: 21.50%). The differences are explained below:

	2015			2014		
	Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
Net return on ordinary activities before taxation	**11,034**	**2,811**	**13,845**	**9,994**	**2,961**	**12,955**
Theoretical tax at UK Corporation tax rate of 20.25% (2014: 21.50%)	2,235	569	2,804	2,149	636	2,785
Effects of:						
– UK dividends which are not taxable	(1,880)	–	(1,880)	(1,605)	–	(1,605)
– Non-taxable overseas dividends	(284)	–	(284)	(397)	–	(397)
– Increase in excess management expenses and finance costs	–	453	453	–	409	409
– Income taxable in different years	(4)	–	(4)	1	–	1
– Irrecoverable overseas tax suffered	30	–	30	29	–	29
– Gains on investments held at fair value	–	(1,089)	(1,089)	–	(1,193)	(1,193)
	97	**(67)**	**30**	**177**	**(148)**	**29**

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

c) Factors that may affect future tax charges

The Company has expenses in excess of taxable income of £12,984,000 (2014: £10,271,000) that are available to offset future taxable revenue. A deferred tax asset of £2,337,000 (2014: £2,054,000) has not been recognised in respect of these expenses and will be recoverable only to the extent that the Company has sufficient taxable revenue.

9 Return per ordinary share

The return per ordinary share figure is based on the gains attributable to the ordinary shares of £13,815,000 (2014: £12,926,000) and on the 109,794,009 weighted average number of ordinary shares in issue during the year (2014: 106,237,900).

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

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

	2015 £'000	2014 £'000
Net revenue return	10,937	9,817
Net capital return	2,878	3,109
Total return	**13,815**	**12,926**
Weighted average number of ordinary shares	109,794,009	106,237,900
Revenue return per ordinary share	9.96p	9.24p
Capital return per ordinary share	2.62p	2.93p
Total return per ordinary share	**12.58p**	**12.17p**

Notes to the Financial Statements (continued)

10 Investments held at fair value through profit or loss

	2015 £'000	2014 £'000
Valuation at 1 January	231,802	215,334
Investment holding gains at 1 January	(54,296)	(54,323)
Cost at 1 January	**177,506**	**161,011**
Purchases at cost	43,905	46,511
Sales at cost	(30,519)	(30,016)
Cost at 31 December	**190,892**	**177,506**
Investment holding gains at 31 December	51,020	54,296
Valuation of investments at 31 December	**241,912**	**231,802**

Total transaction costs amounted to £204,000 (2014: £186,000) of which purchase transaction costs for the year ended 31 December 2015 were £177,000 (2014: £163,000). Sale transaction costs for the year ended 31 December 2015 were £27,000 (2014: £23,000). These transaction costs comprise mainly stamp duty (purchases only) and commissions.

11 Debtors

	2015 £'000	2014 £'000
Taxation recoverable	20	21
Prepayments and accrued income	1,329	1,341
	1,349	**1,362**

12 Creditors: amounts falling due within one year

	2015 £'000	2014 £'000
Bank loans and overdrafts	25,419	43,999
Accruals	2,158	2,038
	27,577	**46,037**

The Company has a three year multi-currency loan facility of up to £30,000,000 with Scotiabank (2014: £46,000,000). At 31 December 2015 the Company had short term multi-currency loans under the Scotiabank loan facility amounting to £25,419,000, repayable in January, February and March 2016 (2014: £43,999,000, repayable in January and February 2015). The average interest rate payable on these loans was 1.26% (2014: 1.32%).

13 Creditors: amounts falling due after more than one year

	2015 £'000	2014 £'000
Private placement notes	19,796	–
	19,796	**–**

On 8 July 2015 the Company issued £20,000,000 (nominal) 3.67% unsecured private placement notes due 2034, net of issue costs totalling £204,000. The issue costs will be amortised over the life of the secured notes. Fair value of the Private Placement Notes is estimated to be its par value.

Notes to the Financial Statements (continued)

14 Financial risk management policies and procedures

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

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

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

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

14.1 Market risk

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

14.1.1 Currency risk

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

14.1.2 Interest rate risk

Interest rate movements may affect:

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

Management of the risk

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

Interest rate exposure

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

- floating interest rates: when the interest rate is due to be re-set; and
- fixed interest rates: when the financial instrument is due for repayment. These dates are shown on page 50.

Notes to the Financial Statements (continued)

14 Financial risk management policies and procedures (continued)

14.1.2 Interest rate risk (continued)

	2015			2014		
	Within one year £'000	More than one year £'000	Total £'000	Within one year £'000	More than one year £'000	Total £'000
Exposure to floating interest rates:						
Cash at bank	1,223	–	1,223	1,860	–	1,860
Creditors – within one year:						
Borrowings under multi-currency loan facility	(25,475)	–	(25,475)	(43,999)	-	(43,999)
	(24,252)	–	(24,252)	(42,139)	–	(42,139)
Exposure to fixed interest rates:						
Investments held at fair value through profit or loss	–	25,220	25,220	–	25,484	25,484
Creditors – more than one year:						
Private placement notes[1]	(354)	(33,258)	(33,612)	–	–	–
Total exposure to interest rates	**(24,606)**	**(8,038)**	**(32,644)**	**(42,139)**	**25,484**	**(16,655)**

[1] The above figures show interest payable over the remaining term of the Private Placement Notes. The figures in the 'more than one year' column also include the capital to be repaid. Details of the repayment are set out on page 48.

Interest receivable and finance costs are at the following rates:

- interest received on cash balances, or paid on bank overdrafts, is at a margin linked to LIBOR or its foreign currency equivalent (2014: same);
- interest paid on borrowings under the multi-currency loan facility is at a margin over LIBOR or its foreign currency equivalent for the type of loan. The weighted average interest rate of these was 1.32% at 31 December 2015 (2014: 1.32%);
- interest paid on the Private Placement Notes is at a rate of 3.67%; and
- the nominal interest rates on the fixed interest investments held at fair value through profit or loss are shown on page 8. The weighted average interest rate on these investments is 6.14% (2014: 5.93%).

Interest rate risk sensitivity

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

- loan sensitivity: borrowings vary throughout the year as a result of the Board's borrowing policy. Borrowings at the year end were £25,419,000 (2014: £43,999,000) (see note 12) and if that level of borrowings were maintained for a full year, then a 100 basis points change in LIBOR (up or down) would decrease or increase total return on ordinary activities after taxation by approximately £254,000 (2014: £440,000);
- Private Placement Notes: the Private Placement Notes are at a fixed rate of interest so will not be impacted by any changes in LIBOR or short term interest rates; and
- fixed interest investment sensitivity: the Company's fixed interest portfolio at the year end was valued at £25,220,000 (2014: £25,484,000), and it has a modified duration (interest rate sensitivity) of approximately 7.7 years (2014: 6.2 years). A 100 basis points change in short term interest rates (up or down), which is mirrored by an equivalent change in long term interest rates, would be expected to decrease or increase this portfolio's value by approximately £1,942,000 (2014: £1,580,000), all other factors being equal.

14.1.3 Other price risk

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

Management of the risk

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

When appropriate, the Company may buy/sell put or call options or futures on indices and on equity investments in its portfolio to manage its exposure to price risk or to generate income. At 31 December 2015 the Company had no open positions (2014: no open positions).

Concentration of exposure to other price risks

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

Notes to the Financial Statements (continued)

14 Financial risk management policies and procedures (continued)

14.1.3 Other price risk (continued)

Other price risk sensitivity

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

	2015		2014	
	10% increase in fair value £'000	10% decrease in fair value £'000	10% increase in fair value £'000	10% decrease in fair value £'000
Income statement – net return after tax				
Revenue return	(38)	38	(36)	36
Capital return	24,108	(24,108)	23,100	(23,100)
Net return after tax for the year	**24,070**	**(24,070)**	**23,064**	**(23,064)**
Equity shareholders' funds	**24,070**	**(24,070)**	**23,064**	**(23,064)**

14.2 Liquidity risk

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

Management of the risk

Liquidity risk is not significant as the majority of the Company's assets are investments in quoted securities that are readily realisable. The Company has a three year multi-currency loan facility of £30,000,000 with Scotiabank (2014: £46,000,000), due to expire on 30 June 2018, and an overdraft facility with the custodian, the extent of which is determined by the custodian on a regular basis by reference to the value of securities held by it on behalf of the Company. The Company's Private Placement Notes are due to be repaid on 8 July 2034.

Liquidity risk exposure

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

	2015 Due within three months £'000	2014 Due within three months £'000
Bank loans and overdrafts (including accrued interest)	25,475	44,109
Other creditors and accruals	2,158	2,038
	27,633	**46,147**

14.3 Credit and counterparty risk

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

Management of the risk

The risk is managed as follows:

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

Notes to the Financial Statements (continued)

14 Financial risk management policies and procedures (continued)

14.3 Credit and counterparty risk (continued)

Rating	2015 %	2014 %
A	9.5	–
BBB	25.5	35.0
BB	36.5	31.2
B	13.3	23.0
CCC	4.0	–
Not rated	11.2	10.8
Total	**100.0**	**100.0**

Source: Bloombergs (Composite Moody's, S&P).

The percentages above represent the amount of fixed interest investments (excluding preference shares) by credit rating.

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

14.4 Fair values of financial assets and financial liabilities

The fair values of the financial assets and liabilities are either carried in the statement of financial position at their fair value (investments and derivatives) or the statement of financial position amount is a reasonable approximation of fair value (due from brokers, dividends and interest receivable, due to brokers, accruals, cash at bank, bank overdrafts, Private Placement Notes and amounts due under the multi-currency loan facility).

14.5 Fair value hierarchy disclosures

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

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

Financial assets at fair value through profit or loss at 31 December 2014	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equity investments	205,167	–	–	205,167
Convertibles	1,151	–	–	1,151
Fixed interest instruments:				
Preference shares	4,136	–	–	4,136
Other	21,348	–	–	21,348
Total	**231,802**	**–**	**–**	**231,802**

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

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

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

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

The valuation techniques used by the Company are explained in note 1c) on page 43.

The investments were previously Level 1 in 2014 under FRS 29 Fair Value Hierarchy and continue to be categorised as Level 1 under FRS102.

There have been no transfers between levels of fair value hierarchy during the year.

Notes to the Financial Statements (continued)

14 Financial risk management policies and procedures (continued)

14.6 Capital management policies and procedures

The Company's capital management objectives are:

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

The Company's capital is its equity share capital, reserves and debt that are shown in the statement of financial position at a total of £242,326,000 (2014: £233,986,000).

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

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

The Company is subject to several externally imposed capital requirements:

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

The Company has complied with these requirements.

15 Share capital

	Shares entitled to dividend	Total shares in issue	Nominal value in issue £'000
Issued ordinary shares of 5p each			
At 31 December 2014	108,882,287	108,882,287	5,444
Issued during the year	2,185,078	2,185,078	109
At 31 December 2015	**111,067,365**	**111,067,365**	**5,553**

During the year the Company issued 2,185,078 shares for net proceeds of £3,949,000 (2014: £9,722,000). Since the year end a further 200,000 shares have been issued for net proceeds of £353,000.

Notes to the Financial Statements (continued)

16 Reserves

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

The revenue reserve and realised capital profits are distributable by way of dividend.

17 Net asset value per ordinary share

The net asset value per ordinary share is based on the net assets attributable to the ordinary shares of £197,111,000 (2014: £188,987,000) and on the 111,067,365 ordinary shares in issue at 31 December 2015 (2014: 108,882,287).

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

	2015 £'000	2014 £'000
Net assets at start of year	188,987	175,348
Total net return on ordinary activities after taxation	13,815	12,926
Dividends paid on ordinary shares in the period	(9,640)	(9,009)
Issue of ordinary shares less issue costs	3,949	9,722
	197,111	**188,987**

18 Contingent liabilities

There were no partly paid shares or underwriting commitments or any other contingent liabilities at 31 December 2015 (2014: nil).

19 Transactions with Henderson

Under the terms of an agreement effective from 22 July 2014 (which replaced the agreement dated 28 July 2011 in order to reflect the appointment of an Alternative Investment Fund Manager in accordance with the requirements of the Alternative Investment Fund Managers Directive), the Company has appointed wholly owned subsidiaries of Henderson Group plc ('Henderson') to provide investment management, accounting, administrative and company secretarial services. Henderson has contracted with BNP Paribas Securities Services to provide accounting and administration services. Details of the management fee arrangements for these services are given in the Strategic Report on page 4.

The total fees paid or payable under this agreement to Henderson in respect of the year ended 31 December 2015 were £2,418,000 (2014: £2,526,000), of which £1,539,000 was outstanding as at 31 December 2015 (2014: £1,790,000).

In addition to the above services, Henderson has provided the Company with marketing services during the year. The total fees paid or payable for these services for the year ended 31 December 2015 amounted to £54,000 (2014: £54,000), of which £14,000 was outstanding at 31 December 2015 (2014: £27,000).

Notes to the Financial Statements (continued)

20 Dividends

	£'000
Revenue available for distribution by way of dividend for the year	10,937
First interim dividend (2.175p) paid on 30 April 2015	(2,378)
Second interim dividend (2.175p) paid on 31 July 2015	(2,383)
Third interim dividend (2.275p) paid on 30 October 2015	(2,511)
Fourth interim dividend (2.275p) paid on 29 January 2016	(2,527)
Undistributed revenue for Section 1158 purposes	**1,138**

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

General Shareholder Information

AIFMD disclosures

Periodic disclosures required in accordance with the Alternative Investment Fund Managers Directive are included within a Key Investor Information Document ('KIID') which can be found on the Company's website: **www.hendersonhighincome.com**

BACS

Dividends can be paid by means of BACS ('Bankers' Automated Clearing Services'); mandate forms for this purpose are available from the Registrar. Alternatively, Shareholders can write to the Registrar (the address is given on page 15) to give their instructions; these must include the bank account number, the bank account title and the sort code of the bank to which payments are to be made.

Common Reporting Standard for Automatic Exchange of Financial Account Information

With effect from 1 January 2016 new tax legislation under The OECD (Organisation for Economic Co-operation and Development) Common Reporting Standard for Automatic Exchange of Financial Account Information ('The Common Reporting Standard') is being introduced. The legislation will require investment trust companies to provide personal information to HMRC on certain investors who purchase shares in investment trusts. As an affected company, Henderson High Income Trust plc will have to provide information annually to the local tax authority on the tax residencies of a number of non-UK based certificated shareholders, and corporate entities.

All new shareholders, excluding those whose shares are held in CREST, who are entered onto the share register from 1 January 2016, will be sent a certification form for the purposes of collecting this information.

For further information, please see HMRC's Quick Guide: Automatic Exchange of Information – information for account holders www.gov.uk/government/publications/exchange-of-information-account-holders.

Equality Act 2010

Copies of this Annual Report and other documents issued by the Company are available from the Corporate Secretary. If needed, copies are freely made available in a variety of formats, including Braille, audio tape or larger type as appropriate. You can contact the Registrar, Computershare Investor Services PLC, which has installed textphones to allow speech and hearing impaired people who have their own textphone to contact them directly, without the need for an intermediate operator by dialling 0370 702 0005. Specially trained operators are available during normal business hours to answer queries via this service.

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

ISA

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

Non-mainstream pooled investments status

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

Performance details/share price information

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

Shareholder details

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

Share price listings

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

Warning to Shareholders

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

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

If you are in any doubt about the veracity of an unsolicited phone call, please call the Corporate Secretary at the number provided on page 15.

Henderson High Income Trust plc
Registered as an investment company in England and Wales with registration number 02422514
Registered office: 201 Bishopsgate, London EC2M 3AE

SEDOL number: 0958057
ISIN number: GB0009580571
London Stock Exchange (EPIC) Code: HHI
Global Intermediary Identification Number (GIIN): JBA08I.99999.SL.826
Legal Entity Identifier number (LEI): 213800OEXAGFSF7Y6G11

Telephone: **020 7818 1818**
Email: **trusts@henderson.com**

www.hendersonhighincome.com

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Henderson
GLOBAL INVESTORS

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The Association of
Investment Companies

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