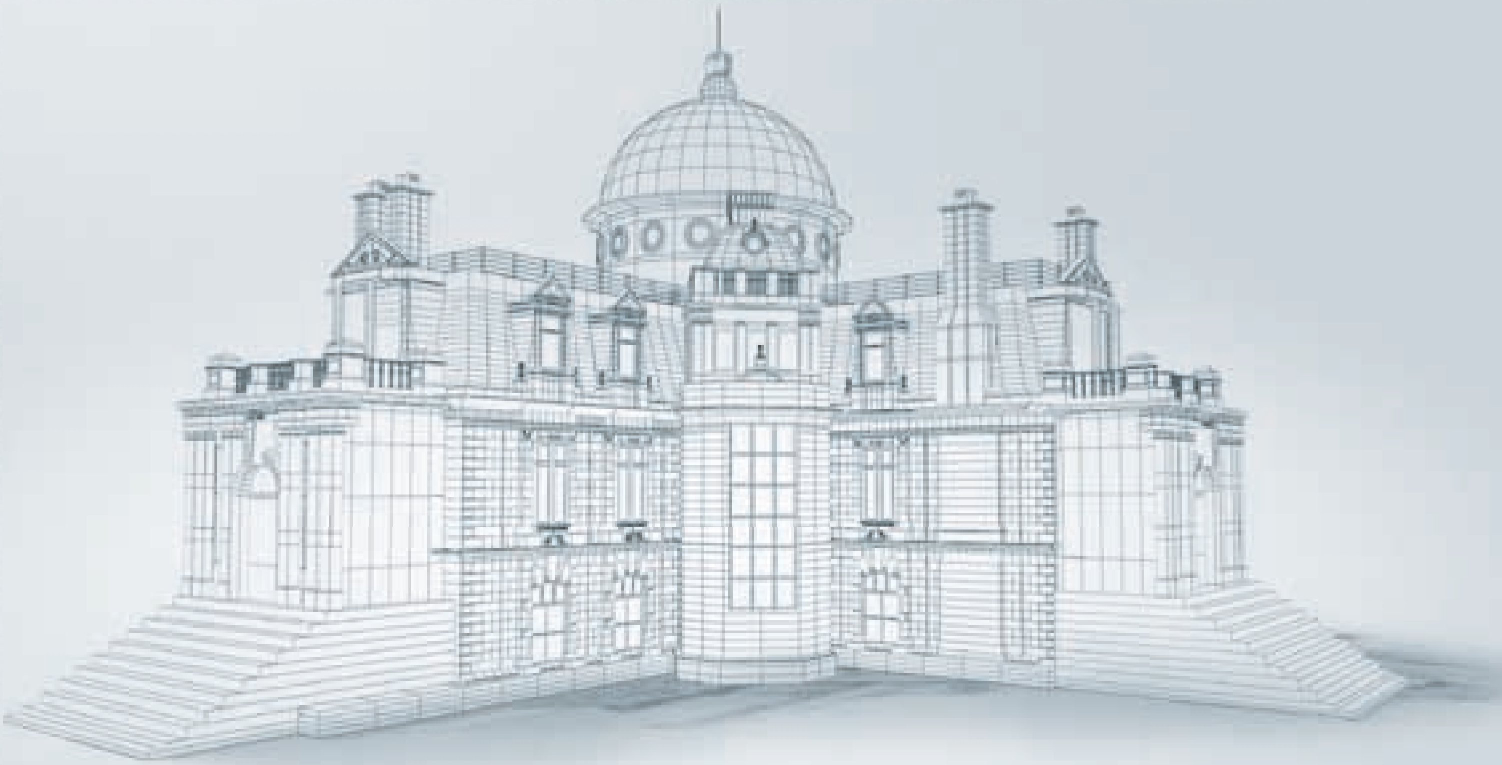
HENDERSON HIGH INCOME TRUST PLC

Annual Report 2014



MANAGED BY
Henderson
GLOBAL INVESTORS

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

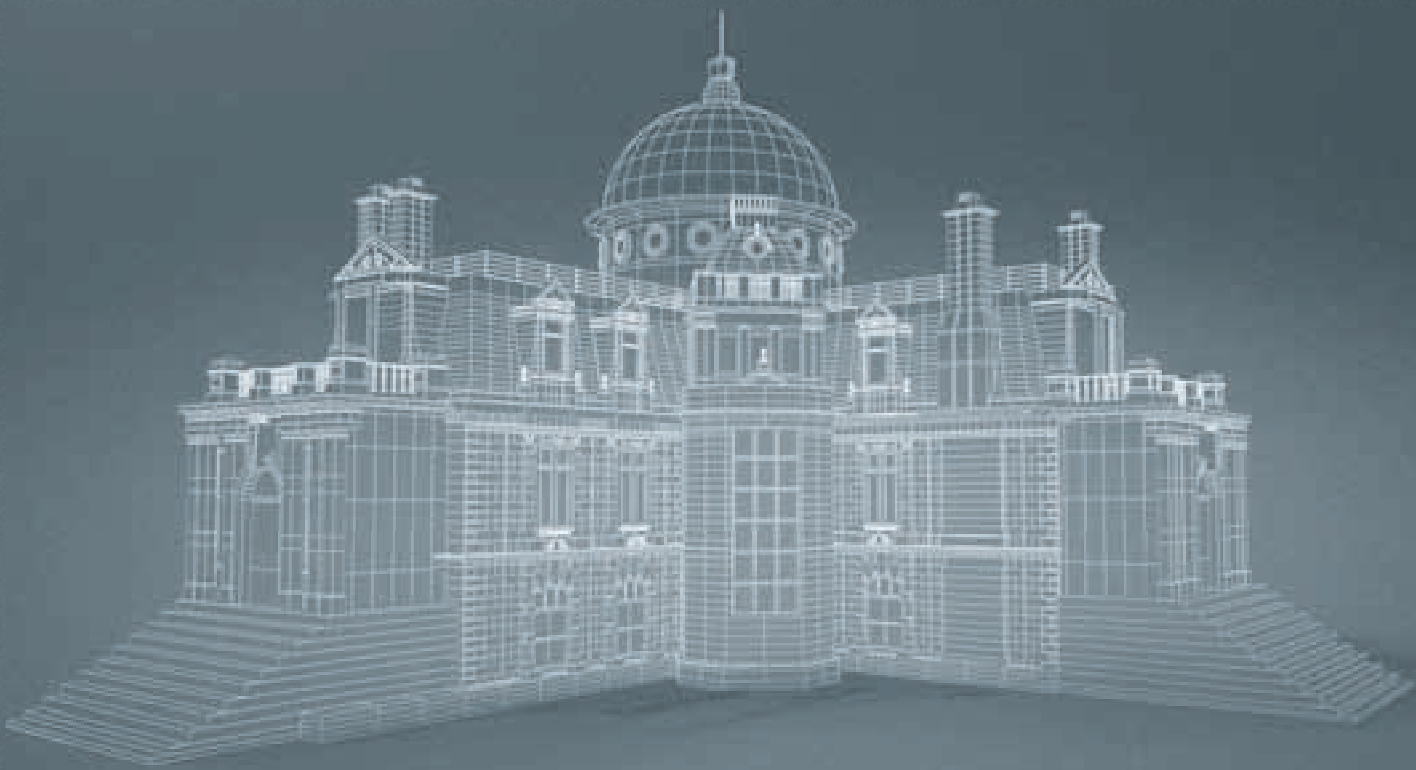
Strategic Report

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

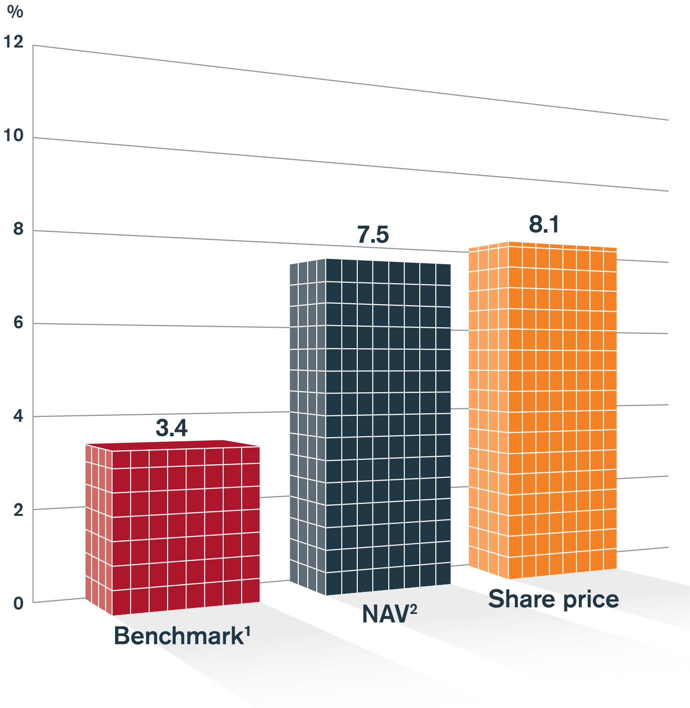
A substantial majority of the Company's assets are currently invested in ordinary shares of listed companies with the balance in listed fixed interest stocks. The Company invests predominantly in companies listed in the UK and does not expect to invest more than 20% of total assets in non-UK listed companies.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



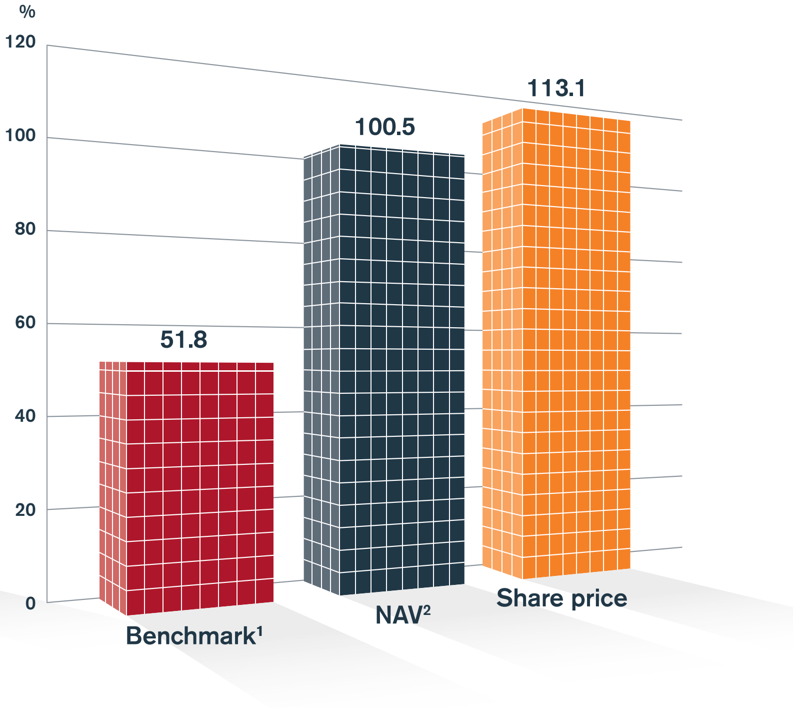
Strategic Report: Performance Highlights

Total return performance to 31 December 2014

One year

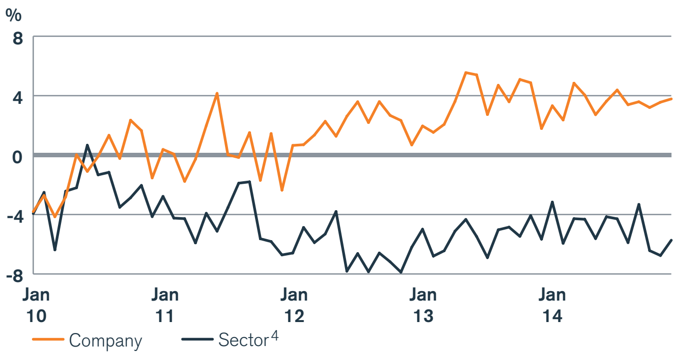


Five years



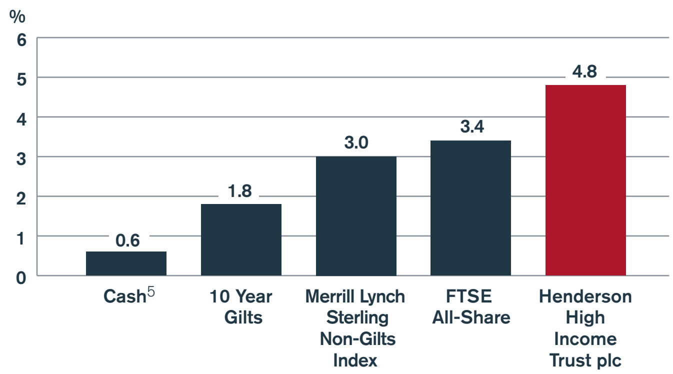
Premium/(discount) to 31 December 2014[3]

Five years

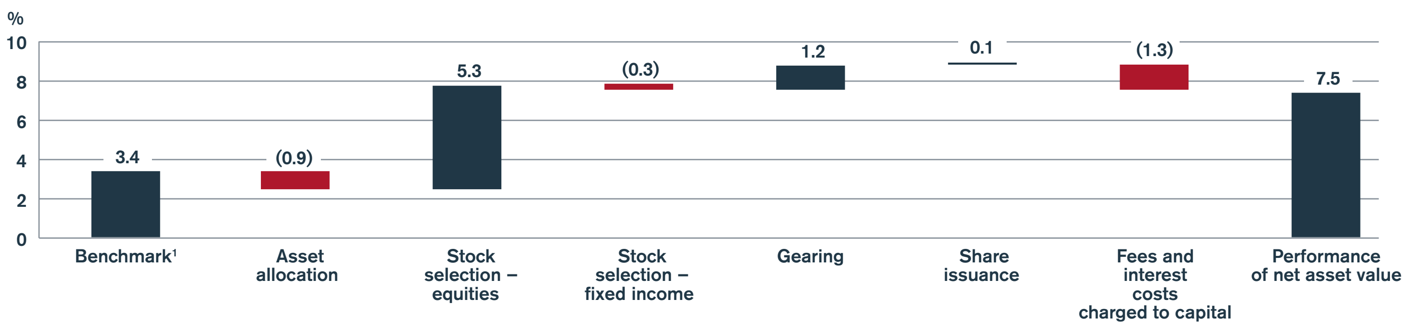


Net dividend yield

as at 31 December 2014



Attribution – explanation of movement in net asset value (total return) in 2014



Strategic Report: Performance Highlights (continued)

NAV per share

2014 **173.57p**
2013 169.72p

Mid-market price per share

2014 **177.88p**
2013 172.75p

Revenue return per share

2014 **9.24p**
2013 9.12p

Net assets at year end

2014 **£189.0m**
2013 £175.3m

Dividend for the year

2014 **8.60p**
2013 8.40p

Dividend yield

2014 **4.8%**
2013 4.9%

Ongoing charge for the year[6]

2014 **0.72%**
2013 0.70%

Net gearing at year end

2014 **22.7%**
2013 22.8%

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)
2 Net asset value 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 The ongoing charge excludes the performance fee. The charge including the performance fee was 1.59% (2013: 2.08%)

Sources: Morningstar Funddata, Henderson Global Investors geometric returns, DataStream, AIC

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, usually in the form of bank borrowings, although longer term borrowing could be utilised if considered appropriate, 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 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 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. Prior to 22 July 2014 Henderson Global Investors Limited was appointed as Investment Manager. 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.

Alex Crooke has been managing the portfolio since 1997. David Smith has been co-managing the portfolio with him since January 2014 having been deputy manager since January 2013.

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 under management on the last business day of each of the two years preceding the calendar year in respect of which the calculation is made, payable quarterly in arrears. Gross assets under management exclude any Henderson managed funds or Henderson Group plc shares that might be held in the portfolio.

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 aggregating the difference between the portfolio performance and the benchmark performance. 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). The portfolio performance is the annual sum of the cash differences in the value of each holding in the total portfolio over each month (excluding any Henderson managed funds) after adjusting for purchases, sales and income. The benchmark performance is the amount calculated by multiplying the percentage increase in the benchmark over the month by the aggregate initial market value of each of the securities in the portfolio.

In the event that the aggregate portfolio performance is greater than the benchmark performance over the financial year, a performance fee of 15% of the difference will be payable. In the event that the aggregate portfolio performance is less than the benchmark performance over the financial year, the negative underperformance will be carried over to the following financial year. No performance fee will be payable until the future positive performance exceeds the aggregate amount of any negative performance carried over from any previous years.

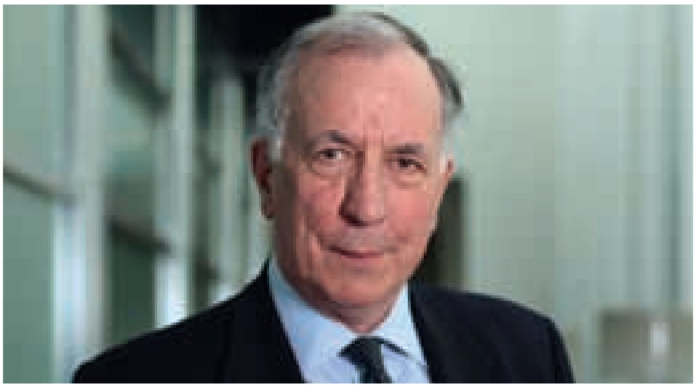
The upper limit that may be paid to Henderson in respect of the sum of the base fee plus any supplemental fees and performance fees in any one financial year is 1.5% of the average of assets under management over the four quarter ends. Any excess positive performance above this shall be carried over to the following financial year and added to the performance for that year.

The split of management fees and performance fees charged between the income and capital accounts is explained in note 1f on page 38.

The management fee arrangements with Henderson were subject to a formal review in early 2015 and the following changes were agreed with effect from 1 January 2015:

- the base management fee will be charged against gross assets less current liabilities other than loans or other debt for investment purposes treated as current liabilities;
- performance will be measured using the net asset value total return per ordinary share relative to the benchmark equivalent;
- 1.0% will be deducted from any relative outperformance before any performance fee can be paid;
- the cap on total fees in any one financial year (base management fee and performance fee) is reduced from 1.5% to 1.0% of gross assets less current liabilities other than loans or other debt for investment purposes treated as current liabilities; and
- any unrewarded outperformance above the cap may be carried forward for a maximum of three years but may only be used to offset any underperformance. It cannot in itself earn a performance fee.

Strategic Report: Chairman's Statement



The Chairman of the Company, Hugh Twiss, MBE, reports on the year to 31 December 2014

Performance

I am proud to be able to report that our Fund Managers have more than risen to the challenge that I anticipated they would face at the time of my interim statement. Against a difficult market background they have produced a very commendable outcome for the year of a share price total return of 8.1% which compares to that of our benchmark of only 3.4%. To put this into context, the FTSE All-Share Index which reflects the majority of our assets, only achieved a 1.2% total return for the year. This excellent performance is not a one off as we have significantly outperformed our benchmark over one, three, five and ten years, with the latter showing a share price total return of 189.0% compared to our benchmark's 102.5% and the FTSE All-Share Index's return of 107.6%. Whilst no reason for complacency, it is certainly a powerful case for the benefits of the investment trust structure of a company like ours and against passive management. I will leave it to Alex Crooke and David Smith to explain in their report how they have achieved this performance, but they well deserve both our praise and our thanks and they have again fully justified the payment to Henderson under our performance-related fee arrangement.

Dividends

At the interim stage I was delighted to be able to announce a further modest increase in our dividend by 2.4% which was in excess of the then prevailing inflation rate (Consumer Price Index ('CPI')) of 1.9%. This now looks rather rampant compared to the latest CPI inflation of 0.3%! Shareholders will well know from my previous comments that it is the Board's aspiration to continue to increase gradually the dividend so long as we gain confidence that any such increase will be sustainable in the years ahead. We will, therefore, continue to keep the level of our dividend under review each year and in light of our actual experience and the investment conditions at the time.

Continuation Vote

The Company's articles of association provide that Shareholders should have the opportunity every fifth year to vote on whether they wish to continue the life of the Company or to wind it up. Shareholders will, therefore, be asked to vote on this at the forthcoming annual general meeting, as an ordinary resolution, which requires a majority vote in favour to pass.

Your Board is strongly recommending that you vote in favour, in person or by proxy (by completing the voting card that has been circulated with this Annual Report), so that the Company can continue to provide Shareholders with a high level of income (we currently yield 4.7%) whilst maintaining the prospect of capital growth over time. Should the resolution fail to pass then the Board would be required to wind the Company up. If you are in doubt as to what action you should take then I would urge you to consult your financial advisor. The Directors will be voting their own holdings in favour and encourage all other Shareholders to do the same.

Gearing

Gearing is, as I have often reminded Shareholders, an important feature of the Company. We utilise it principally to enable us to improve the total return. With interest rates still lower than the yield on many good quality equities, we believe there are particular advantages to utilising borrowings at the current time.

With interest rates at historic lows there are strong benefits to the Company seeking to secure a certain amount of our borrowings on a longer term basis. With this in mind we have negotiated a short term extension of our existing loan facility while we investigate the prospects of obtaining fixed long term borrowings. If this should not prove possible on attractive terms, then we will look to put in place a longer term extension of our existing loan facility.

Strategic Report: Chairman's Statement (continued)

Issue of new shares

As Shareholders will be aware, our shares have traded at a premium to their net asset value throughout the year, indeed at the end of the year the share price was on a 3.8% premium. This has been as a result of a steady demand for our shares in the market and, therefore, we have issued 5,568,469 new shares in the course of the year to 31 December 2014 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 it improves the liquidity of the shares and enhances their NAV since shares are issued at a premium and the fixed costs are spread over a wider base. We will be asking Shareholders to renew this authority at the forthcoming annual general meeting.

Management agreement

Each year, as is reported in this Annual Report on page 4, we review the management arrangements for the Company and confirm the arrangements for the following year. This is no formality and the review covers a number of important aspects, including the terms of our agreement with Henderson, and often results in a lively discussion between the Board and Henderson. This year, as a result of the need to appoint an Alternative Investment Fund Manager, we agreed a new and up to date management agreement. During these discussions, both parties agreed that it would be appropriate also to review the fee arrangement and, as a consequence, a new one, which is set out on page 4 of this Annual Report, has been agreed with effect from the 1 January 2015. The Board believes that this new arrangement, which should result in a lower fee being paid, will ensure that the Company continues to benefit from Henderson's proven successful management of the Company in a way that both incentivises and fairly rewards them.

Outlook

If Alex and David thought that 2014 was challenging then I suspect 2015 may well turn out to make 2014 look like a walk in the park. As I write this we have a number of storm clouds appearing such as the consequences of a very uncertain UK election outcome in May, Greece's apparent determination to play a version of 'Call My Bluff', the prospect of deflation in some economic areas, the stand-off between a US Republican Congress and a Democratic President and that is without the activities of Mr Putin or Islamic extremists. Notwithstanding all these, there are some positives like continued very low interest rates and the economic benefits of a substantially lower oil price. So there will be attractive opportunities and with the prospect of still low interest rates, I remain confident that our Fund Managers will continue to find rewarding investments for our portfolio. Positive returns, to the extent we have enjoyed in recent years, may be harder to achieve, but there are currently no reasons to believe that the all-important income part of the return will not be maintained.

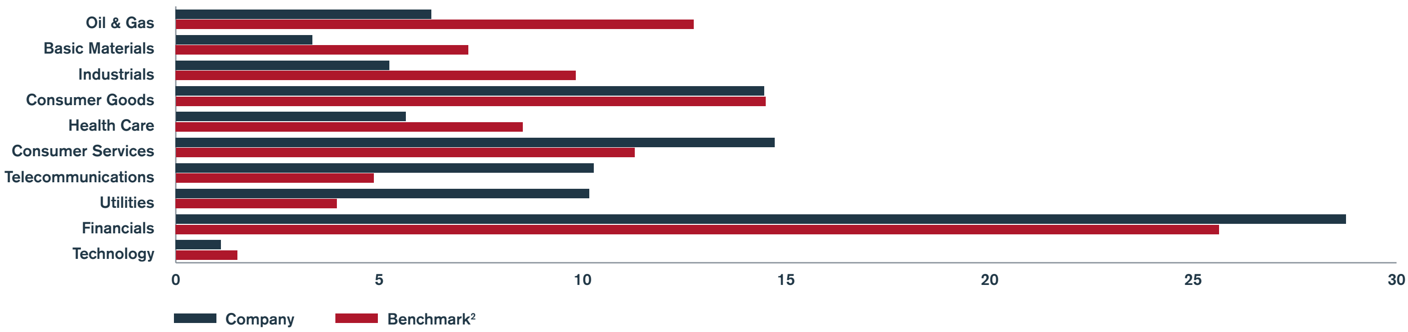
Strategic Report: Portfolio Information

Sector exposure at 31 December

Excluding cash

Sector	2014 £'000	2014 Percentage of portfolio	2013 £'000	2013 Percentage of portfolio
Financials	58,550	25.2	54,544	25.3
Consumer Services	30,367	13.1	23,645	11.0
Consumer Goods	29,847	12.9	21,967	10.2
Fixed Interest	25,484	11.0	25,796	12.0
Telecommunications	21,186	9.1	22,402	10.4
Utilities	20,958	9.1	19,045	8.9
Oil & Gas	12,962	5.6	11,677	5.4
Health Care	11,653	5.0	12,021	5.6
Industrials	11,595	5.0	19,397	9.0
Basic Materials	6,914	3.0	3,035	1.4
Technology	2,286	1.0	1,805	0.8
Total	**231,802**	**100.0**	**215,334**	**100.0**

Sector underweights/overweights[1]



Ten largest investments at 31 December

Position	Company	Sector	Fair value 2014 £'000	Percentage of portfolio 2014	Fair value 2013 £'000	Percentage of portfolio 2013
1	British American Tobacco	Consumer Goods	8,845	3.8	6,832	3.2
2	AstraZeneca	Pharmaceuticals & Biology	7,110	3.1	4,491	2.1
3	National Grid	Utilities	7,023	3.0	6,028	2.8
4	Legal & General[3]	Financials	6,670	2.9	6,047	2.8
5	BT	Telecommunications	6,384	2.8	6,032	2.8
6	BP	Oil & Gas	6,031	2.6	6,589	3.1
7	Vodafone Group	Telecommunications	6,025	2.6	10,866	5.0
8	HSBC	Financials	5,861	2.5	6,379	3.0
9	Standard Life[3]	Financials	5,822	2.5	5,339	2.5
10	Galliford Try	Consumer Goods	5,616	2.4	5,453	2.5
			65,387	**28.2**	**64,056**	**29.8**

1 Chart uses average weights
2 The AIC Equity and Bond Income sector
3 Includes fixed interest

Strategic Report: Investment Portfolio (continued)

Investments: Fixed Interest

	Total 31 December 2014 £'000
Preference Shares	
General Accident 8.875%	1,060
Middlefield Canadian Inc Part 7%	762
National Westminster Bank 9%	670
Nationwide Building Society 10.625%	1,644
Total Preference Shares	**4,136**

	£'000
Other Fixed Interest	
AA Bond Company 9.5% 2019	549
Altice 7.25% 2022	946
Arqiva Broadcast Finance 9.5% 2020	823
Auris Luxembourg 8% 2023	926
Aviva 6.125% Variable 2049	1,061
Bank of Scotland 9.375% 2021	458
BUPA Finance 6.125% Variable 2049 x	1,912
Credit Suisse Group 7.5% Variable Perpetual	1,307
Daily Mail & General Trust 6.375% 2027	686
Electricité de France 5.875% Perpetual	417
Electricité de France 6% Perpetual	319
HBOS Capital Funding 6.461% 2049	1,045
Investec Bank 9.625% 2022	651
Iron Mountain 6% 2023	1,094
Legal & General Group 5.5% Variable 2064	1,698
National Westminster Bank 5.9779% 2049	217
Prudential 5.7% Variable 2063	1,134
RBS Capital Trust 6.425% Perpetual	395
Regal Entertainment Group 5.75% 2025	590
Service Corporation International 8% 2021	1,173
Standard Life 6.546% Variable 2049	974
Techem Energy Metering Service 7.875% 2020	625
Unitymedia Kabel BW 6.125% 2025	728
Virgin Media Secured Finance 6.25% 2029	1,620
Total Other Fixed Interest	**21,348**
TOTAL FIXED INTEREST	**25,484**

*includes covertibles

Investments: Equities

(including convertibles and investment funds)

OIL & GAS	Total 31 December 2014 £'000
Oil & Gas Producers	
BP	6,031
Royal Dutch Shell Plc B	5,584
Statoil (Norway)	1,347
Total Oil & Gas	**12,962**

BASIC MATERIALS	£'000
Mining	
BHP Billiton	3,719
Rio Tinto	3,195
Total Basic Materials	**6,914**

INDUSTRIALS	£'000
Aerospace & Defence	
BAE Systems	1,652
Senior	1,472
Construction & Materials	
Balfour Beatty*	764
Marshalls	1,207
Industrial Engineering	
IMI	1,309
Industrial Transportation	
Fisher J & Sons	1,231
Goldenport (Greece)	24
Support Services	
Connect	746
De La Rue	1,170
Premier Farnell*	388
Smith (DS)	1,632
Total Industrials	**11,595**

CONSUMER GOODS	£'000
Beverages	
Diageo	1,849
Food Producers	
Cranswick	1,399
Dairy Crest	1,394
Hilton Food Group	2,050
Tate & Lyle	1,461
Household Goods & Home Construction	
Galliford Try	5,616
Persimmon	2,892
Tobacco	
British American Tobacco	8,845
Imperial Tobacco	4,341
Total Consumer Goods	**29,847**

HEALTH CARE	£'000
Pharmaceuticals & Biotechnology	
AstraZeneca	7,110
GlaxoSmithKline	4,543
Total Health Care	**11,653**

Strategic Report: Investment Portfolio (continued)

Investments: Equities (including convertibles and investment funds) (continued)

CONSUMER SERVICES	Total 31 December 2014 £'000
Food & Drug Retailers	
Tesco	662
General Retailers	
Majestic Wine	1,546
Marks & Spencer	2,609
Media	
Informa	2,543
ITV	1,904
Moneysupermarket.com	2,455
Pearson	2,986
Reed Elsevier (Netherlands)	4,064
Sky	3,451
Travel & Leisure	
Compass	2,512
Go-Ahead Group	1,376
The Hotel Corporation	13
Marston's	2,623
TUI AG	1,623
Total Consumer Services	**30,367**

TELECOMMUNICATIONS	£'000
Fixed Line Telecommunications	
BT	6,384
Kcom	1,597
Manx Telecom	1,065
Verizon Communications	2,233
Mobile Telecommunications	
Inmarsat	3,104
Tele2 (Sweden)	778
Vodafone Group	6,025
Total Telecommunications	**21,186**

UTILITIES	£'000
Electricity	
Drax	1,523
SSE	3,006
Gas Water & Multiutilities	
Centrica	2,209
National Grid	7,023
Severn Trent	4,192
United Utilities	3,005
Total Utilities	**20,958**

FINANCIALS	Total 31 December 2014 £'000
Banks	
HSBC	5,861
Lloyds Banking Group	1,862
Non-life Insurance	
Brit	1,716
Catlin	5,265
Jardine Lloyd Thompson	2,155
Life Insurance	
Chesnara	2,598
Friends Life	2,414
Legal & General	4,972
Phoenix	3,081
Standard Life	4,848
Real Estate	
Hammerson	1,934
Land Securities	1,909
General Financial	
Intermediate Capital	2,983
Investec	2,142
Jupiter Fund Management	2,004
Paragon	1,477
Tullett Prebon	1,136
Equity Investment Instruments	
Blackstone/GSO Loan Financing (Jersey)	1,469
Carador (Ireland)	2,929
Foresight Solar Fund	1,563
Greencoat UK Wind	1,470
John Laing Infrastructure	2,762
Total Financials	**58,550**

TECHNOLOGY	£'000
Software & Computer Services	
Sage	2,286
Total Technology	**2,286**
TOTAL EQUITIES	**206,318**

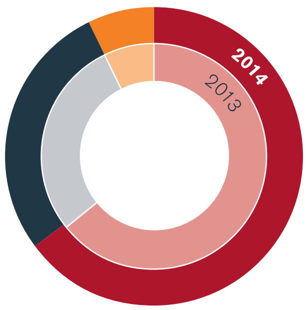
Strategic Report: Investment Portfolio (continued)

Classification of investments by sector

	Total 31 December 2014 %	Total 31 December 2013 %
FIXED INTEREST		
Preference Shares	1.8	1.1
Other Fixed Interest	9.2	10.9
Total Fixed Interest	**11.0**	**12.0**
EQUITIES		
Oil & Gas		
Oil & Gas Producers	5.6	5.4
Total Oil & Gas	**5.6**	**5.4**
Basic Materials		
Mining	3.0	1.4
Total Basic Materials	**3.0**	**1.4**
Industrials		
Aerospace & Defence	1.3	0.7
Construction & Materials	0.9	3.3
Industrial Engineering	0.6	1.5
Industrial Transportation	0.5	1.2
Support Services	1.7	2.3
Total Industrials	**5.0**	**9.0**
Consumer Goods		
Beverages	0.8	0.9
Food Producers	2.7	3.1
Household Goods & Home Construction	3.7	0.9
Tobacco	5.7	5.3
Total Consumer Goods	**12.9**	**10.2**
Health Care		
Pharmaceuticals & Biotechnology	5.0	5.6
Total Health Care	**5.0**	**5.6**
Consumer Services		
Food & Drug Retailers	0.3	0.5
General Retailers	1.8	2.0
Media	7.5	5.5
Travel & Leisure	3.5	3.0
Total Consumer Services	**13.1**	**11.0**
Telecommunications		
Fixed Line Telecommunications	4.8	3.6
Mobile Telecommunications	4.3	6.8
Total Telecommunications	**9.1**	**10.4**

	Total 31 December 2014 %	Total 31 December 2013 %
Utilities		
Electricity	2.0	2.2
Gas, Water & Multiutilities	7.1	6.7
Total Utilities	**9.1**	**8.9**
Financials		
Banks	3.3	4.0
Equity Investment Instruments	4.4	4.8
Financial Services	4.2	2.8
Life Insurance	7.7	7.7
Non-life Insurance	3.9	5.3
Real Estate	1.7	0.7
Total Financials	**25.2**	**25.3**
Technology		
Software & Computer Services	1.0	0.8
Total Technology	**1.0**	**0.8**
TOTAL INVESTMENTS	**100.0**	**100.0**

Distribution of the UK equity holdings at 31 December



	2014 %	2013 %
Large Companies	66	63
Medium-sized Companies	27	28
Small Companies	7	9

Strategic Report: Fund Managers' Report

The Fund Managers of the portfolio, Alex Crooke and David Smith, report on the year to 31 December 2014

Review of the year

After strong gains from equity markets in the last few years, 2014 proved to be a year of consolidation with a number of global events weighing on investor sentiment: Russia's invasion of the Ukraine; an Ebola virus epidemic in West Africa; increased tensions in the Middle East and a halving of the oil price. Despite this, the Company performed strongly with the net asset value total return up 7.5% versus the FTSE All-Share Index and benchmark gains of 1.2% and 3.4% respectively.

In the UK, the economy continued to strengthen with GDP growing at 2.6% last year, its fastest pace since 2007. Unemployment fell below the Bank of England's 7% target which they expected to be the trigger for an increase in interest rates, however, low inflation and concerns over European economic growth saw expectations for the first rate hike pushed out to 2016. In the Budget, George Osborne unveiled the biggest pensions change for over a century by abolishing the compulsory purchase of annuities, while in December 2014 he announced reforms to stamp duty on home purchases.

During the year, the Company benefited from the outperformance of the equity portfolio combined with a positive contribution from gearing. The equity portfolio returned 7.4% compared to the FTSE All-Share Index gain of 1.2%. With the sharp fall in the oil price, large integrated oil companies underperformed and the portfolio's limited exposure in this sector aided relative performance. In the low interest rate environment, investors sought investments with high and stable dividend yields, hence holdings in National Grid, United Utilities and British American Tobacco performed strongly. Elsewhere positions in Catlin, Reed Elsevier and the house builders, Persimmon and Galliford Try, also produced good returns. Catlin was subject to a bid approach in the period while Reed Elsevier announced strong profit growth. Persimmon and Galliford Try are both displaying good capital discipline by prioritising cash returns to shareholders over excess land buying.

Top 10 holdings by contribution to income during the year ending 31 December 2014

Position	Company	£'000
1	GlaxoSmithKline	374
2	British American Tobacco	366
3	Carador (Ireland)	325
4	National Grid	323
5	BP	322
6	Vodafone	300
7	Legal & General*	288
8	HSBC	286
9	Standard Life*	251
10	Galliford Try	247
		3,082

These represent 28.6% of the total income from investments during the year
*includes fixed interest income

Although the fixed income portfolio delivered a good performance of 9.5%, this was behind the 12.3% return from the Merrill Lynch Sterling Non-Gilts Index. The uncertainty surrounding global economic growth led to strong gains in bond markets as investors sought out their relative safety. The 10 year government bond yield in the UK fell to a low of 1.76% by year end, a level not reached since the height of the Eurozone crisis. The portfolio positioning in shorter dated bonds relative to the benchmark proved negative, as longer maturing bonds produced the strongest returns in the period.

The revenue return over the year was modest, increasing by 1.3% to 9.24p per share, representing a lower level of special dividends in 2014 offset by good dividend growth from our underlying investments. Company dividends across the market continue to grow as despite pedestrian market earnings growth, pay-out ratios have increased given strong corporate balance sheets and cash flows. Some of the Company's largest holdings are rewarding shareholdings with attractive double digit growth in their dividends, such as Legal & General, BT and Galliford Try, reflecting the confidence management have in their cash flows. For the second year running the Company increased the final two quarterly dividends, giving a rise in the total dividend for the year of 2.4%, a growth rate ahead of inflation.

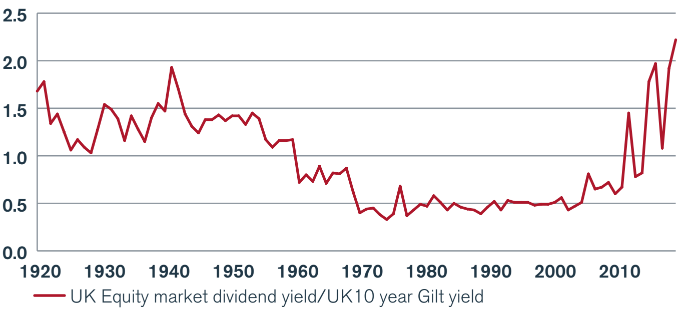
The Company's gearing level as a percentage of Shareholders' funds remained relatively constant during the year (22.8% to 22.7%). The cost of borrowing is still extremely low, and we believe utilising borrowings to enhance the revenue account continues to be attractive.

Portfolio activity

In 2013 we increased the Company's equity exposure and maintained this throughout 2014, ending the year with 89% of the investment portfolio in equities and the remaining 11% in bonds. A year ago it was hard to imagine that bond yields could fall further, however, this proved incorrect as bonds outperformed equities in the period. At the time of writing, Unilever has just issued a seven year bond at a fixed rate of 0.5%. If this is synonymous with the rest of the bond market this appears to offer limited value, especially when compared to equities. Indeed, the dividend yield on the UK equity market is now at a 100 year high relative to the UK 10 year Government bond yield, as the following chart shows.

Strategic Report: Fund Managers' Report (continued)

Equities attractively valued relative to bonds



Source: Citi

In the equity portfolio we increased our exposure to the media sector with the addition of education publisher, Pearson. Near term headwinds created an opportunity to own this high quality, global market leading company on an attractive valuation. New holdings in the financials sector included Paragon, the specialist Buy-To-Let lender, real estate company, Hammerson and Jupiter Fund Management. With the domestic banks offering little by way of dividends, Paragon offers a similar exposure but with a reasonable yield which is growing very strongly. The fundamentals of the rental market are good and the company is writing new business at an attractive return. Hammerson was trading at a significant discount to its net asset value when we initiated a position, despite owning prime retail property such as the Bull Ring Shopping Centre in Birmingham and Bicester Village Outlet Centre. Rental growth should improve as retail sales recover, while the investment pipeline will deliver robust net asset value growth going forward. Jupiter Fund Management has a strong brand in the UK retail market and now the company is debt free we expect a significant increase in cash returns to shareholders.

One consequence of the falling oil price has been a reduction in energy and petrol bills, so supporting a healthy outlook for the consumer next year. We initiated a position in the global market leading tourism group, TUI AG (formally TUI Travel) and added to our holding in the pub company, Marston's. Management at TUI AG are driving profit growth through merger synergies, improving its German division's margins and expanding its highly profitable cruise ship business. The company is also expected to grow its dividend at a double digit rate from an already attractive level.

Sales during the year included positions in waste management company Shanks Group and Direct Line Insurance. We became concerned that the recovery in Shanks' Dutch solid waste division would be slower than expected thereby delaying the ability of the company to start growing its dividend again. Direct Line had been a strong performer since its Initial Public Offering but with the outlook for motor insurance prices weak, we sold our position. Elsewhere we sold our holdings in Greene King and Lloyd's insurer Amlin after a period of outperformance.

Within the fixed income portfolio we initiated a position in Altice, the holding company of French cable business Numericable, and German cable operator Unitymedia, to increase our exposure to consumers fast growing adoption of a single telecoms provider for multiple services (landline, mobile, cable TV and broadband services) across Europe. We also added a new high yield holding in Siemens Audiology, a global hearing aid device manufacturer. The company has a strong management team, good market share and benefits from supportive demographic trends. Positions in ITV and William Hill were sold during the year as we felt the yields had fallen to unattractive levels.

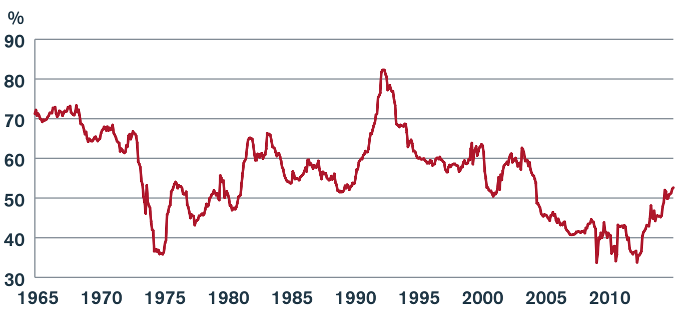
Outlook

We are now a number of years into recovery since the last recession but there still remains uncertainty. Despite the European Central Bank finally launching quantitative easing in the Eurozone, worries are focused on deflation and the impact of a Greek debt default or its exit from the Euro, the repercussions of the sharp fall in the oil price and continued slowing economic growth in emerging markets. In the UK, the General Election and the prospect of another hung Parliament will throw up its own uncertainties. The formation of a new Coalition Government could prove complicated. US and UK economic growth for 2015, however, is forecast to be above trend and with wage inflation in the UK picking up, low interest rates and lower energy, petrol and food bills, the outlook for the consumer is robust.

In absolute terms, UK equity valuations are reasonable, but given the low yields available in other asset classes, equities represent very good value. The Company's exposure to bonds remains at its lowest level historically and this is unlikely to change unless bond yields become more appealing. This year we expect to continue to utilise gearing to enhance both income and capital growth when we feel opportunities exist in investment markets.

The sharp declines in commodity prices could mean aggregate earnings do not grow in the UK market this year given the weighting of the equity market toward resource stocks. In other parts of the market, however, companies are experiencing robust growth as on the whole the global economy is recovering, especially in the US. Good growth in dividends is expected (consensus forecast a 6% market dividend growth in 2015) given pay-out ratios are only in line with the long term average and corporate balance sheets remain strong. We remain positive on equities as the dividend yield and dividend growth on offer should underpin the market.

UK dividend payout ratios



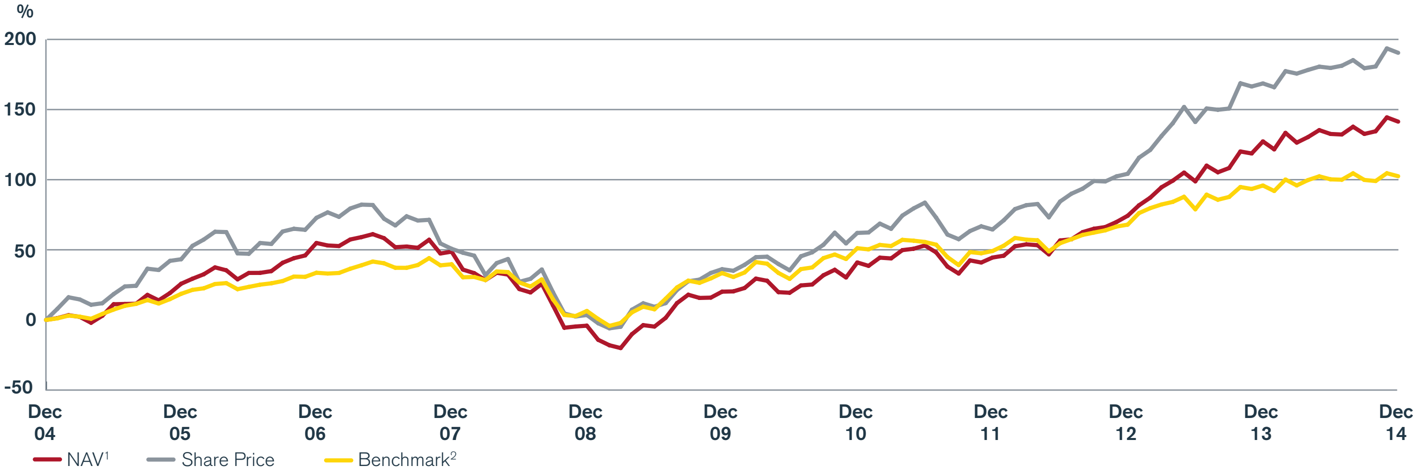
Source: Citi

Strategic Report: Historical Performance and Financial Information

Total return performance

	1 year %	3 years %	5 years %	10 years %
NAV[1]	7.5	69.8	100.5	146.7
Share Price	8.1	76.4	113.1	189.0
Benchmark Index[2]	3.4	35.8	51.8	102.5
FTSE All-Share Index	1.2	37.3	51.8	107.6
Merrill Lynch Sterling Non-Gilts Index	12.4	28.3	49.0	78.0

Total return performance over the 10 years to 31 December 2014



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)

Financial information

At Date	Net assets £'000	NAV p	Mid-market price per ordinary share p	Dividends per ordinary share/unit p
2005	106.6	155.3	153.8	8.83[3]
2006	126.6	181.7	177.3	7.91[3]
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[4]
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**

3 The level of dividend was reduced following the capital reorganisation in September 2005
4 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. In consequence, the Shareholders effectively received the same total dividend of 8.30p per share as in the previous year

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

Strategic Report: Key Information

Directors

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

Hugh Twiss, MBE

Position: Chairman of the Board and the Management Engagement Committee[1]

Date of appointment: 1 October 2003 (Chairman on 2 May 2006).

Hugh has more than 30 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.

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 and Perpetual Income and Growth Trust plc and an adviser to BAE Systems Pension Fund and the Nuffield Foundation. Among a number of charity involvements, he is vice chairman of the governors of Dulwich College.

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.

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.

Anthony Newhouse

Position: Chairman of the Nominations Committee and Director[2]

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 and in 2013 became a Trustee of BAFTA (British Academy of Film and Television Arts). She was formerly the Commercial & Finance Director of Ascot Racecourse and a non-executive director of the Design Council and Royal Holloway College. 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.

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

1 Hugh Twiss, MBE stepped down as Chairman of the Nominations Committee in January 2015

2 Anthony Newhouse was appointed as Chairman of the Nominations Committee in January 2015

Strategic Report: Key Information (continued)

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

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

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: 0870 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**.

Financial calendar

Annual results	announced 18 March 2015
First interim dividend payable	30 April 2015
Annual general meeting[1]	5 May 2015
Second interim dividend payable	31 July 2015
Half year results	announced July 2015
Third interim dividend payable	30 October 2015
Fourth interim dividend payable	29 January 2016

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
To get the latest updates follow us on Twitter @HGiTrusts

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 08457 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.

Strategic Report: Corporate Information

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 and is governed by its articles of association, amendments to which must be approved by Shareholders by way of a special resolution. The Company is not a close company.

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

Principal risks and uncertainties

The Board has drawn up a matrix of risks facing the Company and has put in place a schedule of investment limits and restrictions, appropriate to the Company's investment objective and policy, in order to mitigate these risks as far as practicable. The principal risks which have been identified and the steps taken by the Board to mitigate these are as follows:

Investment activity and performance

An inappropriate investment strategy (for example, in terms of asset allocation or the level of gearing) may result in underperformance against the Company's benchmark index and the companies in its peer group. The Board monitors investment performance at each Board meeting and regularly reviews the extent of its borrowings.

Financial

By its nature as an investment trust, the Company's business activities are exposed to market risk (including currency risk, interest rate risk and other price risk), liquidity risk, and credit and counterparty risk. Although the Company invests almost entirely in securities that are quoted on recognised markets, share prices may move rapidly. The companies in which investments are made may operate unsuccessfully, or fail entirely. A fall in the market value of the Company's portfolio would have an adverse effect on Shareholders' funds. The Directors review the portfolio regularly and risk is mitigated through diversification of investments in the portfolio. Further details of these risks and how they are managed are contained in note 13 on pages 43 to 48.

Regulatory

A breach of Section 1158 could lead to a loss of investment trust status, resulting in capital gains realised within the portfolio being subject to corporation tax. A breach of the Listing Rules could result in suspension of the Company's shares, while a breach of the Companies Act 2006 could lead to criminal proceedings, or financial or reputational damage. Henderson has contracted to provide investment, company secretarial, accounting and administration services through qualified professionals. The Board receives internal control reports produced by Henderson on a quarterly basis, which confirm regulatory compliance.

Operational

Disruption to, or failure of, Henderson's accounting, dealing or payment systems or the custodian's records could prevent the accurate reporting and monitoring of the Company's financial position. The Company is also exposed to the operational risk that one or more of its suppliers may not provide the required level of service. Details of how the Board monitors the services provided by Henderson and its other suppliers, and the key elements designed to provide effective internal control, are explained further in the internal controls and risk management section of the Corporate Governance Statement on page 28.

Borrowing

The Board has in place a loan facility that allows it to borrow as and when appropriate. At 31 December 2014 the Company had a committed loan facility with Scotiabank of £46m. Details of the facility are contained in note 12 on page 42. The facility expires on 31 March 2015. A new six month multi-currency facility of £46m has been agreed with Scotiabank to commence on 1 April 2015. Net borrowing at 31 December 2014 was 22.7% (31 December 2013: 22.8%).

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. The Shareholders are also asked to vote on the continuation of the Company at every fifth annual general meeting in accordance with the articles of association. The Chairman's Statement on page 5 and Fund Managers' Report on page 12 provide commentary on the outlook for the Company.

Key performance indicators

In order to measure the success of the Company in meeting its objectives and to evaluate the performance of Henderson, the Directors take into account the following key performance indicators, and consider dividends and overall portfolio performance to be the most important.

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. In addition, 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 would be declared and paid.

Strategic Report: Corporate Information (continued)

Performance
At each Board meeting, the Board reviews the performance of the portfolio as well as the net asset value and share price of the Company. The Board also compares the performance of the Company against the benchmark. The Board has determined that this measure be used to calculate whether a performance fee is payable to Henderson. Further details of the 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
Ongoing charges are those expenses of a type which are likely to recur in the foreseeable future, whether charged to capital or revenue, and which relate to the operation of the investment company as a collective fund, excluding the cost of acquisition or disposal of investments, financing charges or gains or losses arising on investments. The Board regularly reviews the ongoing charges and monitors all Company expenses. For the year ended 31 December 2014 the ongoing charge (excluding performance fee) were 0.72% (2013: 0.70%). Including performance fees, the charge was 1.59% in the year (2013: 2.08%).

The charts and tables on pages 2, 3 and 13 show how the Company has performed against these KPIs and the Chairman's Statement on pages 5 to 6 and Fund Managers' Report on pages 11 to 12 give more information on performance.

Corporate responsibility

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

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

Voting policy and the UK stewardship code
Henderson's responsible investment policy sets out its approach to corporate governance and corporate responsibility for all the companies in which it invests on behalf of its clients and its policy on proxy voting. The policy also sets out how Henderson implements the UK Stewardship Code. The Company 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 therefore 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 has no employees and its 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.

Henderson's corporate responsibility statement is included on the website **www.henderson.com**. In 2012 it was granted CarbonNeutral Company status which it has committed to maintain at least until the end of 2015.

The Company's Annual Report and half year results update are printed on carbon balanced paper, whereby the carbon impact of the production and distribution process has been balanced, or offset, by the World Land Trust, an international conservation charity. Papers for the Company's Board meetings are now mainly circulated electronically rather than in paper form.

Gender representation
Of the current Directors, four are male and two are female. 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 gender representation within the Company.

For and on behalf of the Board

Hugh Twiss, MBE
Chairman
18 March 2015

Glossary

Alternative Investment Fund Managers Directive ('AIFMD')

Agreed by the European Parliament and the Council of the European Union and transposed 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') and depositary to manage and oversee the operations of the investment vehicle. The Board of the Company retains responsibility for strategy, operations and compliance and the Directors retain a fiduciary duty to Shareholders.

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).

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 who has responsibility for overseeing the operations of the Company including safekeeping, cash monitoring and verification of ownership and valuation 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.

Investment trusts

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

Liquidity

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

Market capitalisation ('market cap')

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

Glossary (continued)

Net asset value ('NAV') per ordinary share

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

Net gearing

The gearing percentage reflects the amount of borrowings (i.e. bank loans or overdrafts) the Company has used to invest in the market. This figure indicates the extra amount by which Shareholders' funds would move if the Company's investments were to rise or fall. This is calculated by taking the difference between investments and equity Shareholders' funds divided by equity Shareholders' funds and multiplied by 100.

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 any performance fees expressed as a percentage of the average Shareholders' funds over the year, in accordance with methodology prescribed by the AIC.

Premium/discount

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

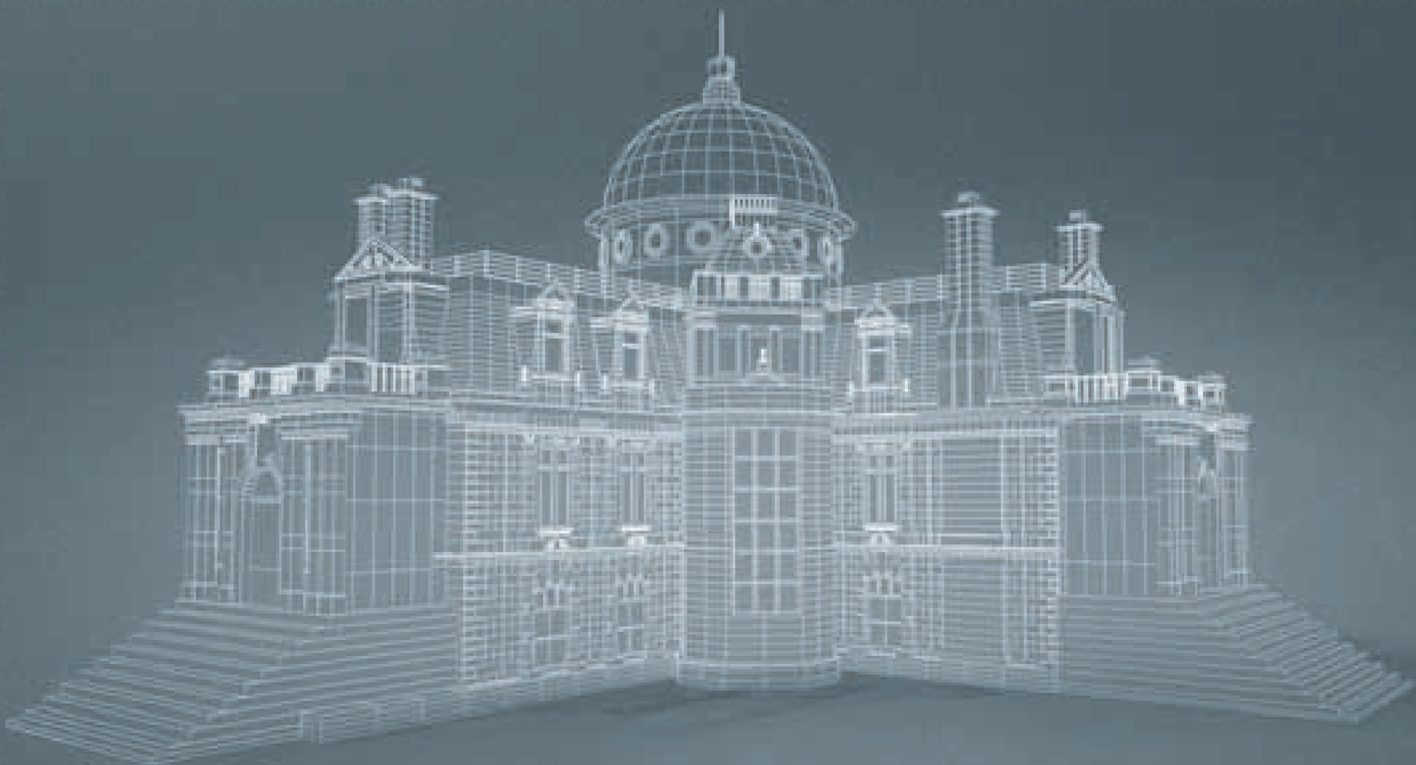
Total return performance

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).

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 2014 to 31 December 2014. 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 24 and 25 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 continues to operate effectively.

Related party transactions

The Company's current related parties are its 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 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 20 on page 49.

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 103,313,818 shares in issue. During the year, the Company issued 5,568,469 new ordinary shares for total net proceeds of £9,722,000. At 31 December 2014 the number of shares in issue was 108,882,287.

Since 31 December 2014 and up to 13 March 2015, being the last practicable date prior to publication of this Annual Report, a further 450,000 shares have been issued and the number of shares in issue is 109,332,287.

Holdings in the Company's shares

Declarations of interests in the voting rights of the Company as at 31 December 2014 in accordance with the disclosure and transparency rules were as follows:

	% of voting rights
Investec Wealth & Investment Limited	4.02

No other changes have been notified between 1 January 2015 and 18 March 2015.

At 31 December 2014, 9.72% 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 these schemes 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.

Going concern

The Company's articles of association require that at every fifth annual general meeting of the Company an ordinary resolution be put to Shareholders asking them to approve the continuation of the Company. The Directors therefore are proposing an ordinary resolution to the Shareholders that the Company continues in existence as an investment trust at this year's annual general meeting and the Directors are recommending that Shareholders should vote in favour of the resolution, as they shall do in respect of their own shareholdings.

The Directors have no reason to believe that the resolution will not be passed however if such resolution is not passed, proposals for the Company's liquidation or reconstruction will be put to Shareholders. The ongoing viability of the Company and the validity of the going concern basis depend on the outcome of the continuation vote, on which the Board is recommending that Shareholders vote in favour. In particular, no provision has been made for the costs of winding-up the Company or liquidating its investments in the event that the resolution is not passed.

The assets of the Company consist mainly of a portfolio of diversified securities that are readily realisable, and the Company has adequate financial resources to meet its liabilities and continue in operational existence for the foreseeable future.

The Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the financial statements. In reviewing the position as at the date of this Annual Report, the Board has considered the 'Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009' published by the Financial Reporting Council.

Annual general meeting

The annual general meeting will be held on Tuesday 5 May 2015 at 12.00 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 letter being sent to Shareholders with this Annual Report.

Report of the Directors (continued)

Corporate governance

The Corporate Governance Statement, set out on pages 26 to 29 forms part of the Report of the Directors.

Directors' statement as to disclosure of information to the Auditor

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

Global greenhouse gas emissions

As an externally managed company, the Company has no greenhouse gas emissions to report from its operations for the year to 31 December 2014 (2013: 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 relation to Listing Rule 9.8.4.

By order of the Board

Henderson Secretarial Services Limited
Corporate Secretary
18 March 2015

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report (which must be fair, balanced and understandable), 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 a 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 performance, business model and strategy.

Statement under DTR 4.1.12

Each of the Directors, who are listed on page 14, 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) on a going concern basis, 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
18 March 2015

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 5 May 2015. 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 attract and retain Directors of a suitable calibre and 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. 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 2.4% on 1 July 2014. 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 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.

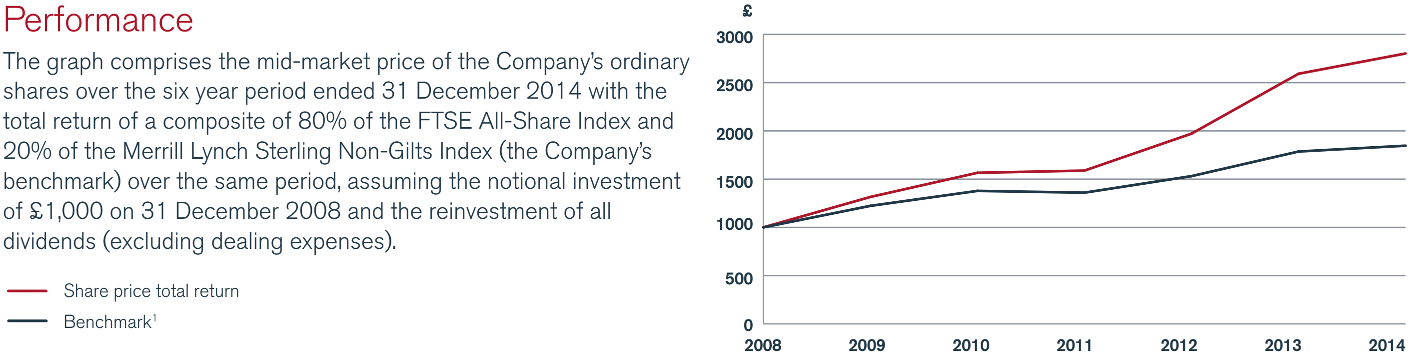
	Ordinary shares of 5p	
	31 December 2014	31 December 2013
Beneficial:		
Hugh Twiss	43,941	43,941
Vivian Bazalgette	10,000	10,000
Andrew Bell	30,000	30,000
Margaret Littlejohns	14,000	14,000
Anthony Newhouse	20,000	20,000
Janet Walker	6,000	6,000

There have been no changes in the Directors' interests between the end of the financial year and the date of this Annual Report.

Directors' Remuneration Report (continued)

Performance

The graph comprises the mid-market price of the Company's ordinary shares over the six year period ended 31 December 2014 with the total return of a composite of 80% of the FTSE All-Share Index and 20% of the Merrill Lynch Sterling Non-Gilts Index (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 Prior to 31 December 2010 the benchmark was a composite of 75% of the FTSE All-Share Index and 25% of the FTA Government All Stocks Index

Source: Morningstar for the AIC

Directors' fees and expenses (audited)

The fees and expenses paid to the Directors who served during the years ended 31 December 2014 and 31 December 2013 were as follows:

	Year ended 31 December 2014 Total salary and fees £	Year ended 31 December 2013 Total salary and fees £	Year ended 31 December 2014 Total £	Year ended 31 December 2013 Total £
Hugh Twiss[1]	31,875	31,125	31,875	31,125
Vivian Bazalgette	21,250	20,750	21,250	20,750
Andrew Bell	21,250	20,750	21,250	20,750
Margaret Littlejohns	21,250	20,750	21,250	20,750
Anthony Newhouse	21,250	20,750	21,250	20,750
Janet Walker[2]	25,500	24,900	25,500	24,900
Total	**142,375**	**139,025**	**142,375**	**139,025**

Notes:

The table above omits other columns set out in the relevant regulations because no payments of other types such as performance related pay, vesting performance related pay and pension related benefits were made. No taxable benefits or expenses were claimed by the Directors in either of the years ended 31 December 2013 and 31 December 2014.

1 Chairman and highest paid Director

2 Chairman of the Audit Committee

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.

Since 1 July 2014 the fees paid to the Directors have been: Chairman £32,250, Audit Committee Chairman £25,800 and Director £21,500.

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.

	2014 £	2013 £	Change £
Total remuneration	142,375	139,025	3,350
Ordinary dividends paid during the year	9,009,000	8,261,000	748,000

Statement of voting at annual general meeting

At the 2014 annual general meeting 23,686,572 votes (97.24%) were received voting for the resolution seeking approval of the Directors' Remuneration Report, 503,721 (2.07%) were against, 168,142 (0.69%) were discretionary and 24,358,435 were withheld. In relation to the approval of the remuneration policy, 23,530,713 (96.77%) were received voting for the resolution, 540,776 (2.22%) were against, 244,267 (1.01%) 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
18 March 2015

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') 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 2013 (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

Terms of appointment

The Board has set, and each Director has agreed to adopt generic terms and conditions of appointment of non-executive Directors of the Company, a copy of which is available for inspection at the Company's registered office during normal business hours and at the Company's annual general meeting and is available on the website **www.hendersonhighincome.com**.

Directors' appointment and retirement

The Board may appoint Directors to the Board without Shareholder approval. Any Director so appointed must stand for election by the Shareholders at the next annual general meeting in accordance with the articles of association.

The AIC Code states that any Director who has served for more than nine years is subject to annual re-election. Vivian Bazalgette, Andrew Bell and Hugh Twiss, are therefore required to seek re-election to the Board at the 2015 annual general meeting.

All Directors are appointed for an initial term of three years. The articles of association require each Director to retire and submit themselves for re-election at least every three years. Margaret Littlejohns and Anthony Newhouse will therefore retire by rotation and offer themselves for re-election to the Board at the 2015 annual general meeting.

The contribution and performance of each of the Directors seeking re-election was reviewed by the Nominations Committee at its meeting in January 2015, which recommended to the Board the continuing appointment of each of those Directors.

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.

Directors' independence

All Directors have a wide range of other interests and are not dependent on the Company itself. At the Nomination Committee meeting in January 2015, the Directors reviewed their independence and confirmed that all Directors remain wholly independent of Henderson. Vivian Bazalgette, Andrew Bell and Hugh Twiss, have served on the Board for more than nine years. In line with the AIC Code, the Board believes that length of service does not diminish the contribution from a Director as experience and knowledge of the Company is a positive factor and should not impact a Director's independence. The Board has determined that all Directors are independent in character and judgement and that their individual skills, broad business experience and high degree of knowledge and understanding of the Company are of great benefit to Shareholders. The Board is cognisant of the majority of longer serving Directors on the Board and has agreed a succession plan in principle, to ensure progressive refreshing of the Board.

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 appraisal.

Corporate Governance Statement (continued)

Directors' insurance and indemnification

Directors' and officers' liability insurance cover is in place which indemnifies the Directors against certain liabilities arising from the carrying out of their duties. 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 judgement is given in their favour by the Court. The Company has granted indemnity to Directors to the extent permitted by law in respect of liabilities that may attach to them in their capacity as Directors of the Company.

The 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.

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 Managers 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 prospects. The Directors confirm that they are satisfied that the Annual Report for the year ended 31 December 2014, taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's 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 can be found on pages 30 to 31.

Nominations Committee

All Directors are members of the Nominations Committee, which is chaired by the Chairman of the Board (who would not chair the Committee when his own performance is being assessed or when the Chairman's successor is being considered). 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 2015 to carry out its annual review of the Board, its composition and size and its Committees. At that meeting the Chairman of the Board stepped down as Chairman of the Nominations Committee and was succeeded by Anthony Newhouse.

Corporate Governance Statement (continued)

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 having a private discussion with each Director and Mr Bazalgette contacting 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 each of the Directors seeking re-election at the Company's 2015 annual general meeting merit re-election by the Shareholders.

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 2014 to carry out its annual review of Henderson, the results of which are detailed on page 4.

Board attendance

The table below 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 2014.

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

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, dividends and documentation arising from the introduction of the Alternative Investment Fund Managers Directive.

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 2014. 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 through Henderson's internal audit department, the Board feels that there is currently no need for the Company to have its own internal audit function.

Corporate Governance Statement (continued)

Accountability and relationship with Henderson

The Statement of Directors' Responsibilities in respect of the financial statements is set out on page 23, the Independent Auditor's Report on pages 32 and 33 and the statement of going concern on page 21.

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 4), 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 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.

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.

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 Managers. It is the Directors' opinion that the continuing appointment of Henderson on the terms agreed with effect from 1 January 2015 is in the interests of the Company and its Shareholders as a whole.

Share capital

Please see the Report of the Directors on page 21.

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.

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 Corporate Secretary at the registered office address given on page 15 of this Annual Report.

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

By order of the Board

Henderson Secretarial Services Limited
Corporate Secretary
18 March 2015

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:

- a review of the half year results and the Annual Report, including the disclosures made therein in relation to internal controls and risk management, 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 performance, business model and strategy;
- 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;
- 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 28;
- consideration of the appointment of the Auditor, and its performance and remuneration (see page 31);
- consideration of the Auditor's independence and objectivity and the provision of any non-audit services (as explained further on page 31); 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)

Audit for the year ended 31 December 2014

In relation to the Annual Report for the year ended 31 December 2014 the following significant issues were considered by the Committee:

Significant issue	How the issue was addressed
Valuation and ownership of the Company's investments	The Directors have appointed Henderson to perform the valuation of the assets of the Company in accordance with its responsibilities under the Alternative Investment Fund Managers Directive ('AIFMD') rules. As required under the AIFMD rules, Henderson has adopted a written valuation policy, which may be modified from time to time. Actively traded investments are valued using stock exchange prices provided by third party pricing vendors. Ownership of listed investments is verified by reconciliation to the custodian's records.
Recognition of income	Income received is accounted for in line with the Company's accounting policy (as set out on page 38) 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.

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:

- 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.

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.

In accordance with EU Regulation on Auditor rotation and Financial Reporting Council guidance on audit tendering, the Company will be required to put its audit contract out to tender at least every ten years.

The Audit Committee remains satisfied with the effectiveness of the audit provided by Grant Thornton UK LLP. At the Audit Committee meeting in March 2015, the Audit Committee assessed the performance of Grant Thornton UK LLP through discussions both with the Auditor present and privately, with the Fund Managers 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 with no tender necessary at this time.

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 2015 annual general meeting.

Fees paid or payable to the Auditor are detailed in note 6 on page 40.

For and on behalf of the Board

Janet Walker
Audit Committee Chairman
18 March 2015

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 2014 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); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

Henderson High Income Trust plc's financial statements comprise the Income statement, the Reconciliation of Movements in Shareholder Funds, the Balance sheet, the 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.

Our assessment of risk

Without modifying our opinion, we highlight the following matters that are, in our judgement, likely to be most important to users' understanding of our audit. Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual transactions, balances or disclosures.

Investments

The Company's business is investing 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. Accordingly, the investment portfolio is a significant, material balance 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, understanding management's process 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 to the 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 the valuation of quoted investments is shown in note 1 on page 38 and its disclosures about investments movements are included in note 10 on page 42.

Investment income

The Company has an income objective and investment income is a significant, material item in the Income Statement. We therefore identified that recognition of investment income is 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 United Kingdom Generally Accepted Accounting Practice; obtaining an understanding of management's process to recognise revenue in accordance with the stated accounting policy; testing whether a sample of income transactions has been recognised in accordance with the policy; for a sample of investments held in the period, confirming that income that should have been received was recognised, and assessing whether any of the revenue should have been treated as capital.

The Company's accounting policy on the recognition of investment income is shown in note 1 on page 38 and the components of that income are included in note 3 on page 40.

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

Materiality

We apply the concept of materiality in planning and performing our audit, in evaluating the effect of any identified misstatements and in forming our opinion. For the purpose of determining whether the financial statements are free from material misstatement we define materiality as the magnitude of a misstatement or an omission from the financial statements or related disclosures that would make it probable that the judgement of a reasonable person, relying on the information, would have been changed or influenced by the misstatement or omission. We also determine a level of performance materiality which we use to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

We established materiality for the financial statements as a whole of £1,890,000, which is 1% of the Company's net assets. For the revenue column of the Income Statement we determined that misstatements of a lesser amount than materiality for the financial statements as a whole was appropriate. We established materiality for the revenue column of the Income Statement of £544,000.

We have determined the threshold at which we communicate misstatements to the Audit Committee to be £94,500. In addition, we communicate misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

Overview of the scope of our audit

Our audit approach was based on a thorough understanding of the Company's business and is risk-based. The day-to-day management of the Company's investment portfolio, the custody of its investments and the maintenance of the Company's accounting records is outsourced to third-party service providers. Accordingly, our audit

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

work included obtaining an understanding of, and evaluating, relevant internal controls at both the Company and third-party service providers. This included a review of reports on the description, design and operating effectiveness of internal controls at relevant third-party service providers. We undertook substantive testing on significant transactions, balances and disclosures, the extent of which was based on various factors such as our overall assessment of the control environment, the design effectiveness of controls over individual systems and the management of specific risks.

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 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; and
- the Annual Report does not appropriately disclose those matters that were communicated to the Audit Committee which we consider should have been disclosed.

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' statement, set out on page 21, in relation to going concern; 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.

Responsibilities for the financial statements and the audit

What an audit of financial statements involves:

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

What the directors are responsible for:

As explained more fully in the Directors' Responsibilities Statement set out on page 23, 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 International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

To whom we are reporting:

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.

Julian Bartlett
Senior Statutory Auditor
For and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
18 March 2015

Income Statement

Notes		Year ended 31 December 2014 Revenue return £'000	Year ended 31 December 2014 Capital return £'000	Year ended 31 December 2014 Total £'000	Year ended 31 December 2013 Revenue return £'000	Year ended 31 December 2013 Capital return £'000	Year ended 31 December 2013 Total £'000
2	Gains on investments held at fair value through profit or loss	–	5,549	5,549	–	33,858	33,858
3	Income from investments held at fair value through profit or loss	10,758	–	10,758	10,080	–	10,080
4	Other interest receivable and similar income	126	–	126	13	–	13
	Gross revenue and capital gains	**10,884**	**5,549**	**16,433**	**10,093**	**33,858**	**43,951**
5	Management and performance fees	(387)	(2,139)	(2,526)	(305)	(2,616)	(2,921)
6	Other administrative expenses	(353)	–	(353)	(329)	–	(329)
	Net return on ordinary activities before finance costs and taxation	**10,144**	**3,410**	**13,554**	**9,459**	**31,242**	**40,701**
7	Finance costs	(150)	(449)	(599)	(137)	(408)	(545)
	Net return on ordinary activities before taxation	**9,994**	**2,961**	**12,955**	**9,322**	**30,834**	**40,156**
8	Taxation on net return on ordinary activities	(177)	148	(29)	(207)	189	(18)
	Net return on ordinary activities after taxation	**9,817**	**3,109**	**12,926**	**9,115**	**31,023**	**40,138**
9	Return per ordinary share	9.24p	2.93p	12.17p	9.12p	31.06p	40.18p

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 recognised gains or losses other than those recognised in the income statement.

The notes on pages 38 to 49 form part of these financial statements

Reconciliation of Movements in Shareholders' Funds

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 31 December 2013	5,166	80,754	26,302	58,594	4,532	175,348
	Net return on ordinary activities after taxation	–	–	–	3,109	9,817	12,926
14	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**

Notes	Year ended 31 December 2013	Called up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
	At 31 December 2012	4,834	70,386	26,302	27,571	3,671	132,764
	Net return on ordinary activities after taxation	–	–	–	31,023	9,115	40,138
14	Issue of new shares	332	10,368	–	–	–	10,700
	Fourth interim dividend (2.075p per share) for the year ended 31 December 2012 paid 31 January 2013	–	–	–	–	(2,006)	(2,006)
	First interim dividend (2.075p per share) for the year ended 31 December 2013 paid 30 April 2013	–	–	–	–	(2,043)	(2,043)
	Second interim dividend (2.075p per share) for the year ended 31 December 2013 paid 31 July 2013	–	–	–	–	(2,066)	(2,066)
	Third interim dividend (2.125p per share) for the year ended 31 December 2013 paid 31 October 2013	–	–	–	–	(2,146)	(2,146)
	Refund of unclaimed dividends	–	–	–	–	7	7
	At 31 December 2013	**5,166**	**80,754**	**26,302**	**58,594**	**4,532**	**175,348**

The notes on pages 38 to 49 form part of these financial statements

Balance Sheet

Notes		At 31 December 2014 £'000	At 31 December 2013 £'000
10	**Investments held at fair value through profit or loss**	231,802	215,334
	Current assets		
11	Debtors	1,362	1,476
	Cash at bank	1,860	184
		3,222	**1,660**
12	**Creditors: amounts falling due within one year**	(46,037)	(41,646)
	Net current liabilities	**(42,815)**	**(39,986)**
	Total assets less current liabilities	**188,987**	**175,348**
	Capital and reserves		
14	Share capital	5,444	5,166
15	Share premium account	90,198	80,754
15	Capital redemption reserve	26,302	26,302
15	Other capital reserves	61,703	58,594
15	Revenue reserve	5,340	4,532
	Equity shareholders' funds	**188,987**	**175,348**
16	Net asset value per ordinary share	173.57p	169.72p

The financial statements and corresponding notes on pages 34 to 49 were approved by the Board of Directors on 18 March 2015, and signed on its behalf by:

Hugh Twiss, MBE
Chairman

The notes on pages 38 to 49 form part of these financial statements

Cash Flow Statement

Notes		Year ended 31 December 2014		Year ended 31 December 2013	
		£'000	£'000	£'000	£'000
18	**Net cash inflow from operating activities**		**7,616**		**7,731**
	Servicing of finance				
	Bank overdraft and loan interest paid		(590)		(524)
	Taxation				
	Tax recovered		15		61
	Financial investment				
	Purchases of investments	(46,511)		(54,637)	
	Sales of investments	35,622		30,328	
	Net cash outflow from financial investment		**(10,889)**		**(24,309)**
	Equity dividends paid		(9,009)		(8,254)
	Net cash outflow before financing		**(12,857)**		**(25,295)**
	Financing				
	Issue of shares	9,722		10,700	
	Drawdown of loans	4,874		11,596	
	Net cash inflow from financing		14,596		22,296
	Increase/(decrease) in cash in the year		**1,739**		**(2,999)**
	Reconciliation of net cash flow to movement in net debt				
	Increase/(decrease) in cash as above		1,739		(2,999)
	Cash inflow from drawdown of loans		(4,874)		(11,596)
	Exchange movements		(63)		(67)
	Movement in net debt		**(3,198)**		**(14,662)**
	Net debt at 1 January		(38,941)		(24,279)
19	**Net debt at 31 December**		**(42,139)**		**(38,941)**

The notes on pages 38 to 49 form part of these financial statements

Notes to the Financial Statements

1 Accounting policies

a) Basis of accounting

The financial statements have been prepared on the historical cost basis except for the measurement at fair value of investments. The financial statements have been prepared in accordance with applicable UK accounting standards and with the Statement of Recommended Practice Financial Statements of Investment Trust Companies and Venture Capital Trusts (the 'SORP') dated January 2009. 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 the foreseeable future. The Company's Shareholders are asked every five years to vote for the continuation of the Company. An ordinary resolution to this effect will be put to Shareholders at the annual general meeting to be held on 5 May 2015 and the Board has no reason to believe that this resolution will not be passed. Please see the Report of the Directors on page 21 for more details. Therefore, the Board has determined that it is appropriate for the financial statements to be prepared on a going concern basis.

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 designated by the Company as 'held at fair value through profit or loss'. They 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 losses on 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 from 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-apportionment basis. Income from other fixed interest securities is recognised so as to reflect the effective interest rate on these securities.

f) Expenses

All expenses are accounted for on an accruals basis. The Board's expectation is that over the long term three-quarters of the Company's investment returns will be in the form of capital gains. 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 annual 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 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 in 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 balance sheet 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 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 balance sheet 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

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 balance sheet 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) Bank borrowings

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

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

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 capital return such that the total return reflects the overall change in the fair value of the option.

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

	2014 £'000	2013 £'000
Gains on sale of investments based on historical cost	5,633	4,543
Less: revaluation gains recognised in previous years	(5,145)	(3,224)
Gains on investments sold in the year based on carrying value at the previous balance sheet date	**488**	**1,319**
Net movement on revaluation of investments	5,126	32,609
Exchange losses	(65)	(70)
	5,549	**33,858**

Notes to the Financial Statements (continued)

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

	2014 £'000	2013 £'000
UK dividend income – listed	7,138	6,264
UK dividend income – special dividends	327	449
	7,465	**6,713**
Interest income – listed	1,401	1,519
Overseas dividend income – listed	1,892	1,848
	3,293	**3,367**
	10,758	**10,080**

4 Other interest receivable and similar income

	2014 £'000	2013 £'000
Bank interest	1	1
Underwriting commission	44	12
Option premium income	81	–
	126	**13**

5 Management and performance fees

	2014			2013		
	Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
Management fee	387	580	967	305	457	762
Performance fee	–	1,559	1,559	–	2,159	2,159
	387	**2,139**	**2,526**	**305**	**2,616**	**2,921**

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 38. A performance fee of £1,559,000 was earned during the year (2013: £2,159,000).

6 Other administrative expenses

	2014 £'000	2013 £'000
Directors' fees (see Directors' Remuneration Report on page 25)	142	139
Auditor's remuneration	25	23
Sales and marketing expenses payable to the management company	54	54
Other expenses (including irrecoverable VAT)	132	113
	353	**329**

7 Finance costs

	2014			2013		
	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	150	449	599	137	408	545

Notes to the Financial Statements (continued)

8 Taxation on net return on ordinary activities

a)

	2014			2013		
	Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
Irrecoverable overseas tax	29	–	29	18	–	18
Tax relief on expenses charged to capital	148	(148)	–	189	(189)	–
Tax charge in respect of the current year	**177**	**(148)**	**29**	**207**	**(189)**	**18**

b) The tax charge for the year is lower than the 21.50% effective rate of corporation tax in the UK for the year ended 31 December 2014 (2013: 23.25%). The differences are explained below.

	2014			2013		
	Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
Net return on ordinary activities before taxation	**9,994**	**2,961**	**12,955**	**9,322**	**30,834**	**40,156**
Theoretical tax at UK corporation tax rate of 21.50% (2013: 23.25%)	2,149	636	2,785	2,167	7,169	9,336
Effects of:						
– UK dividends which are not taxable	(1,605)	–	(1,605)	(1,560)	–	(1,560)
– Non-taxable overseas dividends	(397)	–	(397)	(418)	–	(418)
– Increase in excess management expenses and finance costs	–	409	409	–	514	514
– Income taxable in different years	1	–	1	–	–	–
– Irrecoverable overseas tax suffered	29	–	29	18	–	18
– Gains on investments held at fair value	–	(1,193)	(1,193)	–	(7,872)	(7,872)
Tax charge in respect of the current year	**177**	**(148)**	**29**	**207**	**(189)**	**18**

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 £10,271,000 (2013: £8,368,000) that are available to offset future taxable revenue. A deferred tax asset of £2,054,000 (2013: £1,674,000) has not been recognised in respect of those expenses and will be recoverable only to the extent that the Company has sufficient future taxable revenue.

Notes to the Financial Statements (continued)

9 Return per ordinary share

The return per ordinary share figure is based on the gains attributable to the ordinary shares of £12,926,000 (2013: £40,138,000) and on the 106,237,900 weighted average number of ordinary shares in issue during the year (2013: 99,894,668).

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.

	2014 £'000	2013 £'000
Net revenue return	9,817	9,115
Net capital return	3,109	31,023
Net total return	**12,926**	**40,138**
Weighted average number of ordinary shares in issue during the year	106,237,900	99,894,668
Revenue return per ordinary share	9.24p	9.12p
Capital return per ordinary share	2.93p	31.06p
Total return per ordinary share	**12.17p**	**40.18p**

10 Investments held at fair value through profit or loss

	2014 £'000	2013 £'000
Valuation at 1 January	215,334	157,097
Investment holding gains at 1 January	(54,323)	(24,938)
Cost at 1 January	**161,011**	**132,159**
Purchases at cost	46,511	54,637
Sales at cost	(30,016)	(25,785)
Cost at 31 December	**177,506**	**161,011**
Investment holding gains at 31 December	54,296	54,323
Valuation at 31 December	**231,802**	**215,334**

Total transaction costs amounted to £186,000 (2013: £216,000) of which purchase transaction costs for the year to 31 December 2014 were £163,000 (2013: £193,000). Sale transaction costs for the year to 31 December 2014 were £23,000 (2013: £23,000). These comprise mainly stamp duty (purchases only) and commission.

11 Debtors

	2014 £'000	2013 £'000
Taxation recoverable	21	37
Prepayments and accrued income	1,341	1,439
	1,362	**1,476**

12 Creditors: amounts falling due within one year

	2014 £'000	2013 £'000
Bank loans and overdrafts	43,999	39,125
Accruals	2,038	2,521
	46,037	**41,646**

The Company has a two year multi-currency loan facility of £46,000,000 with Scotiabank (2013: £42,000,000). At 31 December 2014 the Company had short term multi-currency loans under the Scotiabank loan facility amounting to £43,999,000, repayable in January and February 2015 (2013: £39,125,000, repayable in January and February 2014). The average interest rate payable on these loans was 1.32% (2013: 1.40%). A new six month multi-currency facility of £46,000,000 has been agreed with Scotiabank to commence on 27 March 2015.

Notes to the Financial Statements (continued)

13 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 and Henderson coordinate 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 data bases and applications for independent monitoring and risk measurement and compliance purposes.

13.1 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 13.1.1), interest rate risk (see note 13.1.2) and other price risk, in particular the risk of fluctuations in prices of securities (see note 13.1.3). 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 Managers assess 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.

13.1.1 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 those 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.

13.1.2 Interest rate risk

Interest rate movements may affect:

- the fair value of investments in 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 on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment decisions 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 and monitored by the Board. Derivative contracts may sometimes be used to hedge against the exposure to interest rate risk.

Notes to the Financial Statements (continued)

13 Risk management policies and procedures (continued)

13.1.2 Interest rate risk (continued)

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 8.

	2014			2013		
	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	1,860	–	1,860	184	–	184
Creditors – within one year:						
Borrowings under multi-currency loan facility	(43,999)	–	(43,999)	(39,125)	–	(39,125)
	(42,139)	**–**	**(42,139)**	**(38,941)**	**–**	**(38,941)**
Exposure to fixed interest rates:						
Investments held at fair value through profit or loss	–	25,484	25,484	–	25,796	25,796
Total exposure to interest rates	**(42,139)**	**25,484**	**(16,655)**	**(38,941)**	**25,796**	**(13,145)**

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 (2013: 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 2014 (2013: 1.40%); and
- the nominal interest rates on the investments held at fair value through profit or loss are shown on page 8.
  The weighted average interest rate on these investments is 5.93% (2013: 5.38%).

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 £43,999,000 (2013: £39,125,000) (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 net return on ordinary activities after taxation by approximately £440,000 (2013: £391,000); and
- fixed interest investment sensitivity: the Company's fixed interest portfolio at the year end was valued at £25,484,000 (2013: £25,796,000), and it had a modified duration (interest rate sensitivity) of approximately 6.2 years (2013: 4.5 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 £1,580,000 (2013: £1,161,000), all other factors being equal.

Notes to the Financial Statements (continued)

13 Risk management policies and procedures (continued)

13.1.3 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 2014 the Company had no open positions (2013: no open positions).

Concentration of exposure to other price risks

An analysis of the Company's investment portfolio is shown on pages 8 to 10. The majority of the investments are in UK companies. Accordingly, there is a concentration of exposure to the UK, and particularly the financial sector, comprising mostly insurance companies and equity investment instruments (see page 10). However, 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.

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 balance sheet date, with all other variables held constant.

	2014		2013	
	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	(36)	36	(33)	33
Capital return	23,100	(23,100)	21,458	(21,458)
Net return after tax for the year	**23,064**	**(23,064)**	**21,425**	**(21,425)**
Equity shareholders' funds	**23,064**	**(23,064)**	**21,425**	**(21,425)**

Notes to the Financial Statements (continued)

13 Risk management policies and procedures (continued)

13.2 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 two year multi-currency loan facility of £46,000,000 with Scotiabank (2013: £42,000,000), due to expire on 31 March 2015, 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 the securities held by it on behalf of the Company.

Liquidity risk exposure

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

	2014 Due within three months £'000	2013 Due within three months £'000
Bank loans and overdrafts (including accrued interest)	44,109	39,223
Other creditors and accruals	2,038	2,521
	46,147	**41,744**

13.3 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 standard is reviewed periodically by the Fund Managers, 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.

Rating	2014 %	2013 %
BBB	35.0	32.7
BB	31.2	43.1
B	23.0	18.0
Not Rated	10.8	6.2
Total	**100.0**	**100.0**

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

The percentage represents the amount of fixed interest investments (excluding preference shares).

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.

Notes to the Financial Statements (continued)

13 Risk management policies and procedures (continued)

13.4 Fair values of financial assets and financial liabilities

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

13.5 Fair value hierarchy disclosures

The table below sets out fair value measurements using the FRS 29 fair value hierarchy.

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 investments:				
Preference shares	4,136	–	–	4,136
Other	21,348	–	–	21,348
Total	**231,802**	**–**	**–**	**231,802**

Financial assets at fair value through profit or loss at 31 December 2013	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equity investments	188,374	–	–	188,374
Convertibles	1,164	–	–	1,164
Fixed interest investments:				
Preference shares	2,368	–	–	2,368
Other	23,428	–	–	23,428
Total	**215,334**	**–**	**–**	**215,334**

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 38.

There have been no transfers during the year between levels.

13.6 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 balance sheet at a total of £233,986,000 (2013: £214,473,000).

The Board, with the assistance of the Fund Managers, 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.

Notes to the Financial Statements (continued)

13 Risk management policies and procedures (continued)

13.6 Capital management policies and procedures (continued)

The Company is subject to several externally imposed capital requirements:

- under the bank facility with Scotiabank 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.

14 Share capital

	Shares entitled to dividend	Total shares in issue	Nominal value in issue £'000
Issued ordinary shares of 5p each			
At 31 December 2013	103,313,818	103,313,818	5,166
Issued during the year	5,568,469	5,568,469	278
At 31 December 2014	**108,882,287**	**108,882,287**	**5,444**

During the year the Company issued 5,568,469 shares for total net proceeds of £9,722,000 (2013: £10,700,000). Since the year end a further 450,000 shares have been issued for net proceeds of £808,000.

15 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 2014	80,754	26,302	4,271	54,323	4,532
Transfer on disposal of investments	–	–	5,145	(5,145)	–
Net gains from investments	–	–	488	5,126	–
Foreign exchange losses	–	–	(65)	–	–
Issue of shares	9,444	–	–	–	–
Management and performance fees and finance costs charged to capital	–	–	(2,588)	–	–
Tax relief thereon	–	–	148	–	–
Net revenue after tax for the year	–	–	–	–	9,817
Dividends paid	–	–	–	–	(9,009)
At 31 December 2014	**90,198**	**26,302**	**7,399**	**54,304**	**5,340**

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

16 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 £188,987,000 (2013: £175,348,000) and on the 108,882,287 ordinary shares in issue at 31 December 2014 (2013: 103,313,818 ordinary shares).

Notes to the Financial Statements (continued)

17 Contingent liabilities

There were no partly paid shares or underwriting commitments or any other contingent liabilities at 31 December 2014 (2013: £239,000).

18 Reconciliation of net return on ordinary activities before finance costs and taxation to net cash inflow from operating activities

	2014 £'000	2013 £'000
Net return before finance costs and taxation	13,554	40,701
Gains on investments held at fair value through profit or loss	(5,549)	(33,858)
Increase/(decrease) in accrued income and debtors of a revenue nature	98	(137)
(Decrease)/increase in creditors	(458)	1,062
Tax deducted on investment income	(29)	(37)
Net cash inflow from operating activities	**7,616**	**7,731**

19 Analysis of changes in net debt

	1 January 2014 £'000	Cash flow £'000	Exchange movement £'000	31 December 2014 £'000
Cash at bank and overdrafts	184	1,664	12	1,860
Debt due within one year	(39,125)	(4,799)	(75)	(43,999)
	(38,941)	**(3,135)**	**(63)**	**(42,139)**

20 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 2014 were £2,525,000 (2013: £2,921,000), of which £1,790,000 was outstanding as at 31 December 2014 (2013: £2,343,000).

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 2014 amounted to £54,000 (2013: £54,000), of which £27,000 was outstanding at 31 December 2014 (2013: £13,500).

21 Dividends

	£'000
Revenue available for distribution by way of dividend for the year	9,817
First interim dividend (2.125p) paid on 30 April 2014	(2,226)
Second interim dividend (2.125p) paid on 31 July 2014	(2,257)
Third interim dividend (2.175p) paid on 31 October 2014	(2,340)
Fourth interim dividend (2.175p) paid on 30 January 2015	(2,368)
Undistributed revenue for Section 1158 purposes	**626**

General Shareholder Information

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.

Equality Act

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 0870 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.

FCA restrictions

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.

ISA

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

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.

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.

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.

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, 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.

Alternative Investment Fund Managers Directive (unaudited)

Henderson and the Company are required to make certain disclosures available to investors in accordance with the Alternative Investment Fund Managers Directive ('AIFMD'). Those disclosures that are required to be made pre-investment are included within a Key Investor Information Document ('KIID') which can be found on the Company's website **www.hendersonhighincome.com**. There have been no material changes to the disclosures contained within the KIID since publication in July 2014.

The periodic disclosures to investors are made below:

- information on the investment strategy, geographic and sector investment focus and principal stock exposures is included in the Strategic Report. A full list of portfolio holdings is included on pages 8 to 10;
- none of the Company's assets are subject to special arrangements arising from their illiquid nature;
- the Strategic Report and note 13 to the accounts set out the risk profile and risk management systems in place. There have been no changes to the risk management systems in place in the period under review and no breaches of any of the risk limits set, with no breach expected;
- there are no new arrangements for managing the liquidity of the Company or any material changes to the liquidity management systems and procedures employed by Henderson; and
- all authorised Alternative Investment Fund Managers are required to comply with the AIFMD Remuneration Code. It is therefore anticipated that the Henderson Remuneration Policy and associated financial disclosures will be made with the Company's Annual Report from 2016.

Leverage

Although leverage is often used as another term for gearing, under the AIFMD Regulations leverage is expressed as a ratio of the exposure of debt, non-sterling currency, equity or currency hedging and derivatives exposure against the net asset value. It defines two types of leverage, the gross method and the commitment method.

These are essentially the same other than the commitment method allows derivative instruments to be netted off to reflect 'netting' or 'hedging arrangements'. Non-sterling cash is deemed to carry a currency exposure so is considered to be leverage. In accordance with the AIFMD the Company is obliged to disclose the maximum expected leverage levels under both methods and this is disclosed on page 52. In order to comply with the AIFMD the maximum leverage levels have been set in accordance with the maximum gearing allowable by the Company's articles of association. However, the day-to-day management of gearing and leverage levels will be conducted within the tighter limits set by the Company's investment policy.

Leverage may be applied to the portfolio by utilising financial gearing (such as bank borrowings and overdrafts) and synthetic gearing (through derivatives and/or other non-fully funded instruments or techniques for efficient portfolio management purposes). Typically, synthetic gearing will arise through the use of index futures, forward foreign exchange contracts or contracts for difference, where cash is paid to the counterparty as a margin against the current mark-to-market value of the derivative contract; as a result, depending on the type of instrument, a relatively small movement in the price of a contract may result in a profit or a loss which is high in proportion to the amount of funds actually placed as initial margin and may even result in further loss exceeding any margin deposited. The use of leverage therefore creates additional risks and may significantly increase the market and counterparty risk of the Company through non-fully funded exposure to underlying markets or securities.

Leverage is considered in terms of the Company's overall 'exposure' to financial or synthetic gearing and includes any method by which the exposure of the Company is increased whether through borrowing of cash or securities, or leverage embedded in derivative positions or by any other means. Henderson is required, in accordance with the AIFMD, to calculate and monitor the level of leverage of the Company, expressed as the ratio between the total exposure of the Company and its net asset value with exposure values being calculated by both the gross method and commitment method.

Exposure values under the gross method basis are calculated as the absolute value of all positions in the portfolio; this includes all eligible assets and liabilities, relevant borrowings, derivatives (converted into their equivalent underlying positions) and all other positions, even those held purely for risk reduction purposes, such as forward foreign exchange contracts held for currency hedging.

The gross method of exposure of the Company requires the calculation to:

- include the sum of all non-derivative assets (if applicable) held at market value, plus the absolute value of all such liabilities;
- exclude cash and cash equivalents which are highly liquid investments held in the base currency of the Company, that are readily convertible to a known amount of cash, which are subject to an insignificant risk of change in value and provide a return no greater than the rate of a three month high quality bond;
- include derivative instruments which are converted into the equivalent position in their underlying assets;
- exclude cash borrowings that remain in cash or cash equivalents and where the amounts payable are known;
- include exposures resulting from the reinvestment of cash borrowings, expressed as the higher of the market value of the investment realised or the total amount of cash borrowed; and

Alternative Investment Fund Managers Directive (unaudited) (continued)

- include positions within repurchase or reverse repurchase agreements and securities lending or borrowing or other similar arrangements as applicable.

Exposure values under the commitment method basis are calculated on a similar basis to the above, but may take into account the effect of netting off instruments to reflect eligible netting and hedging arrangements on eligible assets and different treatment of certain cash and cash equivalent items in line with regulatory requirements.

The calculation of leverage assumes that a leverage percentage of 100% equates to zero leverage. A percentage above 100% would mean that the portfolio had leverage equal to the percentage amount above 100%.

The table below sets out the current maximum permitted limit and actual level of leverage for the Company:

	As a percentage of net assets	
	Gross method %	Commitment method %
Maximum level of leverage	200	200
Actual	123	124

There have been no breaches of the maximum level during the period and no changes to the maximum level of leverage employed by the Company. There is no right of re-use of collateral or any guarantees granted under the leveraging arrangement.

Changes to the information contained either within this Annual Report or the KIID in relation to any special arrangements in place, the maximum level of leverage which Henderson may employ on behalf of the Company; the right of use of collateral or any guarantee granted under any leveraging arrangement; or any change to the position in relation to any discharge of liability by the Depositary will be notified via a regulatory news service without undue delay in accordance with the AIFMD.

Henderson High Income Trust plc
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