Henderson Diversified Income Limited

Report and Financial Statements for the year ended 31 October 2009

Objective

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

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

History

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

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Financial Highlights

	31 October 2009 £'000	31 October 2009 per share	31 October 2008 £'000	31 October 2008 per share
Net asset value	**62,236**	**74.4p**	50,700	60.6p
Market price	**–**	**69.5p**	–	68.0p

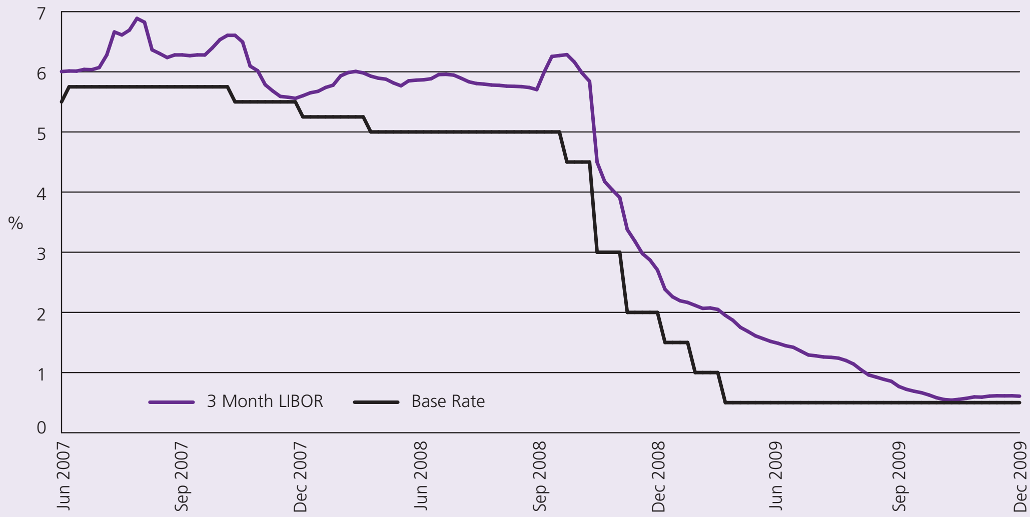
	Year ended 31 October 2009 £'000	Year ended 31 October 2009 per share	Period 5 June 2007 to 31 October 2008 £'000	Period 5 June 2007 to 31 October 2008 per share
Revenue earnings (based on weighted average number of shares)	**4,525**	**5.41p**	5,248	9.59p
Dividends (paid and payable)	**4,476**	**5.35p**	5,202	9.65p

Performance

	Year to 31 October 2009
Net asset value (total return)	**38.19%**
Share price (total return)	**13.91%**

Source: Morningstar for the AIC.

Movement in 3-month LIBOR and UK Base Rates (from launch to 31 December 2009)



Source: Bloomberg

Directors

Paul Manduca (Chairman) has extensive asset and investment management experience having worked as CEO for companies such as Threadneedle Asset Management, Rothschild Asset Management and Deutsche Asset Management in the UK and Europe starting from 1973. He has served on a number of boards as an independent director in the last ten years. He is currently chairman of Aon UK Limited, Senior Independent Director of Wm Morrison Supermarkets plc and of Development Securities plc, and a director of Kazmunaigaz plc and JPMorgan European Fledgling Investment Trust plc.

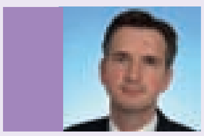
Helen Green is a chartered accountant and has been employed by Saffery Champness, a UK top 20 firm of chartered accountants, since 1984. She qualified as a chartered accountant in 1988 and became a partner in the London office in 1997. Since 2000, she has been based in the Guernsey office where she is a client liaison director responsible for trust and company administration. Mrs Green serves on the boards of a number of companies in various jurisdictions.

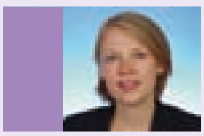
Nigel Parker has over 35 years' experience in the Jersey finance industry and in 2004 was appointed Chief Executive Officer of Gartmore Fund Managers International Limited. He has held a number of positions with Jersey trust companies but specialises in compliance and regulation. In 2002 he was appointed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

David Smith has spent his career in the financial services sector. He has worked in retail banking with National Westminster Bank, in unit trust sales for County Bank and fund management sales for Ivory & Sime. He became Marketing Director of Fleming Investment Trust Management in 1991 during a period of much increased interest in the investment trust sector, before returning to Jersey to help establish Flemings' private banking operations in Jersey. He was appointed Managing Director of Dexia Private Bank (formerly Banque International à Luxembourg) in Jersey in 1999 and has subsequently taken overall responsibility for all Dexia's operations in Jersey. Mr Smith is an Associate of the Chartered Institute of Bankers and a member of the Chartered Institute of Marketing.

All the Directors are non-executive and are members of the Audit Committee and Management Engagement Committee. Mrs Green chairs the Audit Committee. Mrs Green and Mr Parker are also directors of the Luxembourg subsidiary.

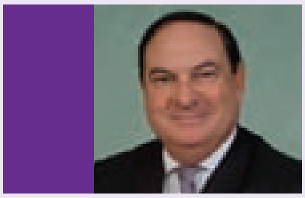
Management


John Pattullo


Jenna Barnard

The portfolio is managed by John Pattullo and Jenna Barnard.

Chairman's Statement



Paul Manduca

Market conditions have remained challenging throughout the year under review although the second half of the year has witnessed a strong recovery in prices as government intervention began to settle markets and some normality returned. At the start of the year, we took the opportunity to increase the portfolio weightings to investment grade and high yield bonds thereby locking in yields well above our income target of 1.25% over LIBOR and also creating capital gains as acquisitions were made at distressed prices. I am pleased, therefore, to report that the net asset value total return of your company increased by 38.19% during the year, and the dividends paid comfortably exceeded our income target.

Performance

The net asset value per share rose to 74.4p at the year end; up from 52.4p at the half year and 60.6p at 31 October 2008. The revenue return for the year was £4.525 million compared to £5.248 million in the period from June 2007 to October 2008, reflecting the fall in LIBOR as well as the shorter period.

Dividends and Dividend Policy

The Company paid four interim dividends for the year totalling 5.35p, each of which was significantly ahead of our income target of LIBOR plus 1.25%, which equated to 1.84% at the year end. The fluctuating level of the interim dividends reflects the actual amount of income earned each quarter as it is the Board's policy to distribute substantially all of the net income earned in the quarter and the amount of that net income earned is impacted by the level of LIBOR. However, with LIBOR at such an exceptionally low level, it is likely that it, and therefore the level of income earned, will rise over the coming year.

Gearing

Your Board has recently renewed a loan facility which allows it to borrow up to £15.5 million for periods of one, two, three or six months. At the year end actual borrowings were £10.1 million meaning that your Company was 16.2% geared, compared to 15.3% a year earlier. These borrowings have been invested in bonds with coupons well above the cost of borrowing. In addition, the portfolio was further geared by exposure to credit default swaps totalling £10.7 million. Your Board keeps the level of gearing under constant review.

Outlook

The last six months have been very encouraging for credit markets and whilst we believe that this improved environment will persist there remains a risk that government bond markets will start to price in the costs of government action to date. There is no room for complacency and over the coming year our portfolio managers will be continuing to sustain their focus on maintaining the quality of the revenue stream and continuing the recovery in the net asset value of the shares back to the initial offer level of 100p per share.

Annual General Meeting

Our AGM will be held on Wednesday 24 February at 11.00am at Liberté House, 19-23 La Motte Street, St. Helier, Jersey, JE2 4SY. In addition, shareholders are welcome to attend a presentation to be held at Henderson's offices at 201 Bishopsgate, London EC2M 3AE on Monday 1 March at 3.00pm, when the Portfolio Managers will make a presentation and they and I will be happy to answer questions. If you would like to attend the London event then please complete and return the yellow card which is enclosed with this report.

Paul Manduca
Chairman
15 January 2010

Managers' Report

John Pattullo

Jenna Barnard

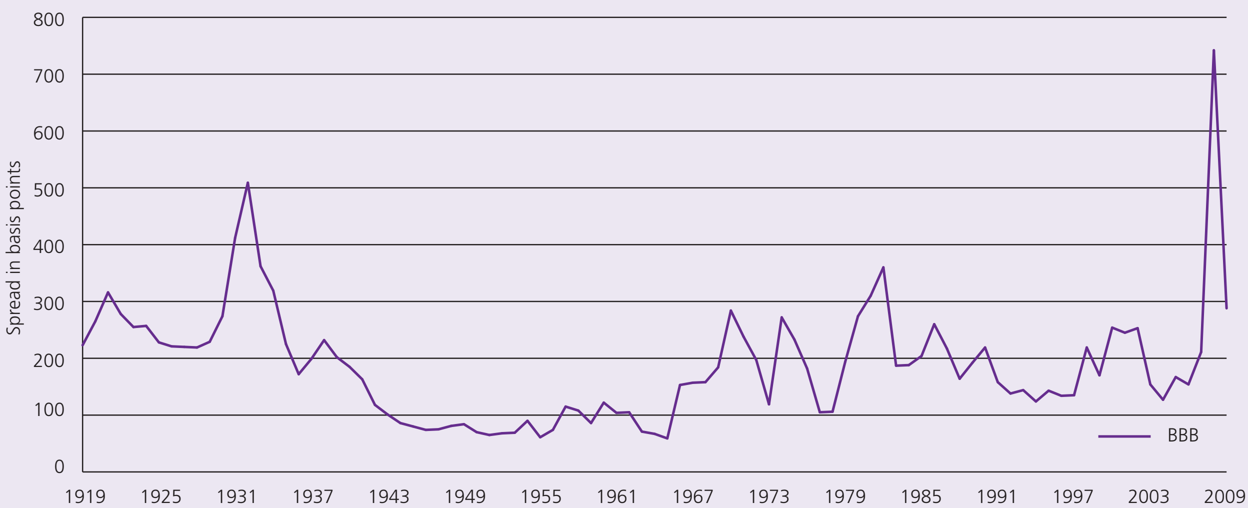
Market Overview

In the closing section of last year's Managers' Report we commented that "For investors willing to ride out this storm there exists a once in a generation value opportunity to be realised in coming months and years". This has proved to be the case with the total return NAV of the Company rising by 38.19% in the year under review. That being said, back in January 2009 it was difficult to envisage the catalyst that would drive credit markets out of the illiquid morass into which they had fallen. Although the valuation case for investing in credit markets was compelling the market was heavily weighed down by a combination of justified fear and technical forced selling.

There were two developments in the Spring which served to fundamentally alter the landscape of credit markets and which resulted in a market rally which still continues today. The first was the announcement by the Bank of England of quantitative easing. The second was the decision by numerous banks to approach bond investors to buy back their debt at a premium to the stressed prices at which they were trading on the secondary market. Both developments served to inject cash into credit markets, reversing the distressed technical dynamics of the market and providing a critical missing ingredient: the confidence for investors to start lending again. In the following months a virtuous circle of investor inflows, bond refinancing, rights issues and asset sales replaced the vicious circle which had characterised the credit market in 2007 and 2008. With increased optimism particularly relating to the banking sector filtering through and capital markets reopening, positive newsflow became self-perpetuating and credit markets entered a sweet spot in which they remain.

However, the audacious responses of policymakers to the financial crisis brings with it its own concerns. The unwanted side effect of policy efforts to bolster the banks has been to effectively transfer systemic risk from the financial sector to the sovereign state itself, leaving the gilt market with a decidedly uncertain outlook. The scale of the gilt issuance resulting from the UK's fiscal deterioration can be seen in the

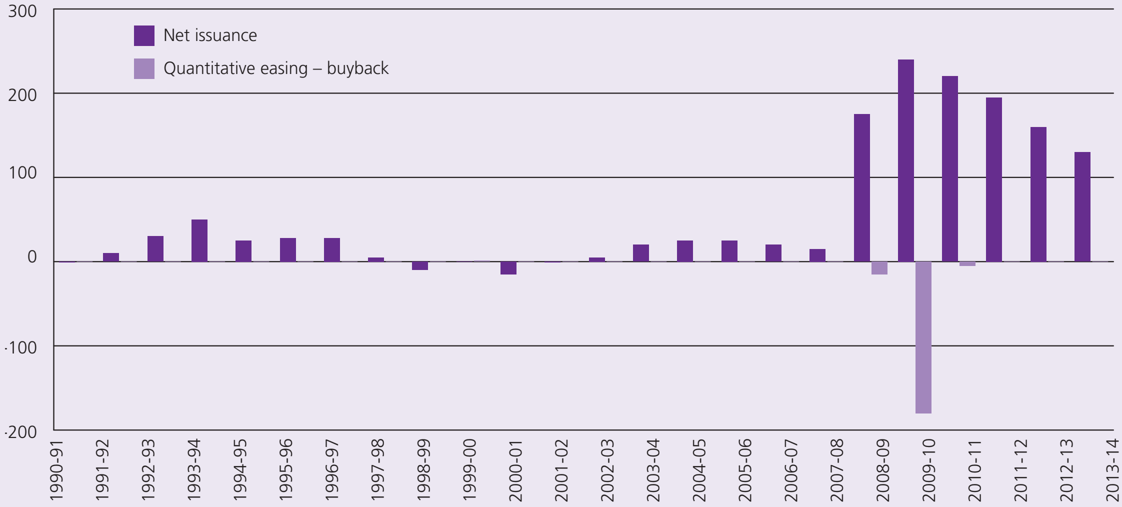
US BBB Credit Spread



Source: Deutsche Bank, as at 31 October 2009

Managers' Report
continued

UK Gilt Market Issuance
£bn



Source: UK Debt Management Office (DMO) as at April 2009 and Bank of England as at 20 November 2009

chart above. In addition, the fear is that by pumping record amounts of money into markets, the Bank of England has over-egged the pudding and stored up a high level of inflation risk further down the line. This transfer of systemic risk seems likely to put pressure on government bonds, causing their yields to rise and prices to fall. The structure of your Company means that it has little sensitivity to such moves in risk free rates. The loans are all floating rate instruments with a coupon which adjusts to changing interest rates rather than allowing the price of the asset to do the adjusting. For the remaining assets interest rate futures can be used to hedge out the little interest rate risk that they possess.

Income

As a company with a floating rate income target, the unprecedented actions taken by central banks in the year under review have resulted in a notable decline in the dividend payout to our shareholders. This is a mechanical result of the LIBOR +125bp income target objective as LIBOR has declined from 5.84% on 31 October 2008 to 0.59% a year later. In a low interest rate environment the current income target is an undemanding one suggesting as it does an all-in yield of just 1.84%. Annualising the most recent quarterly dividend prior to the year end of 1.1p, which was earned during a quarter when LIBOR was at this low level, produces a yield of 4.4% on the original issue price of 100p and 6.3% on the share price of 69.5p at the year end. It is pleasing that we have materially outperformed the income target in the financial year, although we are acutely aware that the overall payout to investors has declined. However with interest rates at such exceptionally low levels it is likely that the income target and dividend will rise over the coming years.

Capital Performance

The asset allocation of the Company has altered over the course of the financial year. The allocation towards secured loans fell from 69% to 52% of the total portfolio with a corresponding increase in the allocation towards bonds. Investment grade bonds rose from 24% to 31% of the portfolio whilst high yield bonds moved from 7% to 17%. There are a number of explanations for this shift in the asset allocation. Firstly, it became clear that the Bank of England's response to the financial crisis was extremely aggressive, taking interest rates to 0.5% followed by a policy of quantitative easing. From an income perspective it therefore made sense to switch a proportion of the assets into fixed rate bonds yielding substantially more than the yield target of the Company. At the same time there were many opportunities to generate capital gain in the bond market so it was deemed that such a switch would not necessarily be detrimental to the Company's capital position. For example,

Managers' Report

continued

a British American Tobacco 2018 bond with a coupon of 9.5% was purchased in November 2008. The capital value of this bond is now approx. 130p having rallied from its issue price of 99p.

In addition, however, the secondary market for bonds also provided fertile ground for investing in extremely cheap, performing assets which had become oversold and thus provided an opportunity to rebuild the Company's NAV. Indeed, many bonds were purchased at deeply distressed prices, providing a means to switch out of loans which had either defaulted or were fundamentally impaired. Perhaps the best example of this strategy is the large position in Aviva's 5.7% perpetual bond which was purchased at an average price of 30.9p as a switch out of an Almatis loan. The Aviva bond ended the year at a price of 89p and provides a useful illustration of the depths to which the credit market plunged in early 2009. There are many other examples of these kind of switches which include purchases of Standard Life bonds at 34.5p, Prudential at 43.0p, Royal Caribbean at 48.5p, BAA at 64.25p, Daily Mail bonds at 59.5p and Hammerson at 78p. The fact that the credit market, (particularly for financial bonds) had sold-off so indiscriminately was extremely helpful to us in limiting the capital losses from loan investments.

Loan Investments

Away from the turmoil in financial markets we saw the real world recession impacting on the performance of many companies in the loan portfolio. This has led to increased levels of financial distress and default, particularly in businesses exposed to more cyclical sectors. Standard & Poor's Ratings Services has indicated that the default rate amongst speculative grade Western European companies hit an annual rate of 13.1% (by number) as at the end of September 2009.

Whilst the Company's diverse portfolio and investment strategy insulated it in part from the impact of rising defaults, a number of secured loans within the portfolio did fail to make interest payments when due. Three of these loans have since restructured with senior lenders agreeing to write off some of their debt in exchange for an equity stake in the business. Therefore the Company saw a write down in the holdings of its loans in IMO, McCarthy & Stone and British Vita, but now holds equity positions in these businesses. Two loans in the portfolio remain in default as at 31 October 2009 and in both instances we are expecting that some of our debt will be converted to equity. We would expect to recover some, if not all, of the written off principal through the eventual sale of these equity positions.

In addition to those transactions which are in default we have moved to improve the credit quality of the loan portfolio, switching out of other underperforming credits into similarly priced bonds or loans with better recovery prospects. We have also more recently looked to sell loans that had risen close to par and recycled the proceeds into cheaper loans offering the potential for future capital appreciation. It is worth highlighting that the vast majority of loan issuers continue to service their debt and with these loans trading at a discount to par they continue to offer attractive risk adjusted returns.

In April 2009, David Milward succeeded Julian Green as Henderson's Head of Secured Loans. David has 19 years' banking/asset management experience, the last seven of these with Henderson as Julian's deputy. Further personnel changes took place in July with three highly experienced loan investors joining the team. The new team has looked to improve credit quality of the loan portfolio, with a greater focus on trading the portfolio.

Outlook

As the fog of panic which swept credit markets over the last few years clears it is hard to resist the view that the worst for risk assets is behind us. Default rates on speculative grade credits are in the process of peaking and are widely expected to fall from approximately 13% to around 4.5% in a year's time. The reopening of capital markets and the corresponding decline in credit spreads has allowed even marginal credits to refinance and term out their debt, setting in train a virtuous circle. In this respect it is worth noting that we are aware of a number of loan issuers exploring IPO

Managers' Report
continued

opportunities or looking to issue new senior secured bonds, which could see the underlying loan repaid at par. Recent examples of companies that have issued new bonds to repay senior debt include Virgin Media and Jefferson Smurfit.

Nevertheless, economies and confidence remain in a somewhat fragile state and as such will be particularly vulnerable to any future shocks. The onus is on policymakers to extract themselves from their audacious interventions in a manner which is timed and scaled to cause the minimum disturbance to markets and thus their economies. With this in mind we are highly sensitive to potential disturbances in sovereign bond markets and the knock on impact this may have on risk assets. We believe we are relatively well placed to perform in an environment of rising government bond yields due to the floating rate nature of many of the instruments in which we invest. Indeed, this environment would be very beneficial to the income yield of the Company. As the economic cycle has developed so too have the risks and opportunities in fixed income markets. This is the natural rhythm of investing in this area and we will continue to pursue investments where the opportunity set suits the emerging economic environment.

John Pattullo and Jenna Barnard
Portfolio Managers
15 January 2010

Investment Portfolio

as at 31 October 2009

Secured Loans

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

Investments by value	Currency	Country	Industry	Market value £'000	% of portfolio
Kabel BW (B,C)	Euro	Germany	Broadcasting	**1,692**	**2.43**
Bausch & Lomb (B)	Euro	USA	Healthcare	**1,642**	**2.36**
Mölnlycke (B,C)	Euro	Sweden	Healthcare	**1,626**	**2.34**
XSYS Flint (B,C)	Euro	Germany	Chemicals, plastics & rubber	**1,518**	**2.18**
Infonxx (B)	Euro	USA	Business services	**1,497**	**2.15**
AZ Electronics (B,C)	Euro	Luxembourg	Electronic materials	**1,428**	**2.05**
Weetabix (B)	£	UK	Beverages, food & tobacco	1,399	2.01
TNT Logistics (B)	US$	UK	Logistics	1,244	1.79
Pages Jaunes (B,C)	Euro	France	Publishing	1,187	1.71
Springer (B,C&E)	US$	Germany	Publishing	1,098	1.58
Doncaster (B,C)	£	UK	Engineering	1,086	1.56
Avio (B,C)	US$	Italy	Aerospace	1,078	1.55
Travelport (B)	US$	USA	Business services	1,075	1.55
New Look (B,C)	£	UK	Retail	955	1.37
Brenntag (B)	£	Germany	Chemicals, plastics & rubber	947	1.36
VNU World Direct (B)	Euro	Belgium	Publishing	922	1.33
Wheelabrator (B,C)	Euro	France	Engineering	886	1.27
Alliance Boots (B)	£	UK	Retail	878	1.26
Orangina (Cadburys) (B)	Euro	France	Beverages, food & tobacco	868	1.25
House of Fraser (B,C)	£	UK	Retail	865	1.24
Linpac (B,C)	Euro	UK	Packaging	857	1.23
Novasep (B,C)	Euro	France	Chemicals, plastics & rubber	845	1.21
Gala Clubs (B,C)	£	UK	Leisure	836	1.20
AVR (B)	Euro	Netherlands	Ecological	820	1.18
Trader Media (B)	£	UK	Publishing	819	1.18
Amadeus (B,C)	Euro	Spain	Business services	807	1.16
NTL (B)	£	UK	Broadcasting	800	1.15
Kwikfit (B)	£	UK	Automotive	793	1.14
Panrico (B,C)	Euro	Spain	Beverages, food & tobacco	734	1.06
IMO (A,B)	£	UK	Retail	731	1.05
Macquarie (D)	£	UK	Telecommunications	716	1.03
Ineos (B,C)	Euro	UK	Chemicals, plastics & rubber	711	1.02
Numericable (C)	Euro	France	Broadcasting	692	0.99
Materis (B,C)	Euro	France	Building materials	661	0.95
Yell (A)	£	UK	Publishing	614	0.88
Deutsch (B,C)	US$	Germany	Engineering	407	0.59
La Seda De Barcelona (B)	Euro	Spain	Chemicals, plastics & rubber	234	0.34
McCarthy & Stone (A)	£	UK	Housebuilding	218	0.31
British Vita (A)	Euro	UK	Chemicals, plastics & rubber	177	0.26
Total Secured Loans				**36,363**	**52.29**

All of the above investments would in our view, if rated, be BB+ or lower.
The letters in parentheses denote loan tranches and indicate the seniority of the loan with A being the most senior and E the most junior.

Investment Portfolio
continued

Investment Grade Bonds

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

Investments by value	Currency	Country	Industry	Market value £'000	% of portfolio
Aviva	£/Euro	UK	Insurance	**1,485**	**2.14**
BNP Paribas	£	France	Diversified banking	**1,483**	**2.13**
Imperial Tobacco	£	UK	Beverages, food & tobacco	**1,409**	**2.03**
Barclays	£	UK	Diversified banking	1,330	1.91
Linde	£	Germany	Industrial gases	1,254	1.80
Standard Chartered Bank	£	UK	Diversified banking	1,090	1.57
Man Group	US$	UK	Investment Companies	1,034	1.49
Royal & Sun Alliance	£	UK	Insurance	907	1.30
BAT	US$	UK	Beverages, food & tobacco	874	1.26
Standard Life	£/Euro	UK	Insurance	844	1.21
Société Générale	£/Euro	France	Diversified banking	810	1.17
Carlsberg	£	Denmark	Beverages, food & tobacco	743	1.07
Altria	US$	US	Beverages, food & tobacco	736	1.06
Legal & General	£	UK	Insurance	708	1.02
Prudential	US$	UK	Insurance	704	1.01
Bank of Ireland	£	Ireland	Diversified banking	682	0.98
BAA	£/Euro	UK	Engineering & construction	606	0.87
Firstgroup	£	UK	Transportation	575	0.83
Friends Provident	£	UK	Insurance	497	0.71
Elm (Swiss Re.)	£	Netherlands	Insurance	439	0.63
Heineken	£	Netherlands	Beverages, food & tobacco	437	0.63
HSBC	£	UK	Diversified banking	395	0.57
Group 4	£	UK	Commercial services	374	0.54
AXA	£	France	Insurance	338	0.49
Royal London	£	UK	Insurance	308	0.44
Hammerson	£	UK	REIT	285	0.41
Nationwide Building Society	£	UK	Diversified banking	280	0.40
WPP	£	UK	Media	197	0.28
Credit Agricole	US$	France	Diversified banking	149	0.21
Cloverie	Euro	Switzerland	Insurance	148	0.21
F&C	£	UK	Diversified financial services	138	0.20
BUPA	£	UK	Insurance	133	0.19
ASR Nederland	Euro	Netherlands	Diversified banking	98	0.14
Total Investment Grade Bonds				**21,490**	**30.90**

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

Investment Portfolio

continued

High Yield Bonds

These bonds are considered more risky than investment grade bonds and as a result have to pay much higher coupons to attract investors. They generally mature in ten years or less and are less sensitive to interest rate changes than other bonds. They are rated below BBB- (by Standard & Poor's rating agency). This rating signifies a higher risk of default compared to an investment grade bond.

Investments by value	Currency	Country	Industry	Market value £'000	% of portfolio
Kabel Deutschland	Euro	Germany	Media	**1,415**	**2.03**
Lloyds Banking Group	£	UK	Diversified banking	1,081	1.56
HCA	£/US$	USA	Healthcare	1,019	1.46
ITV	£	UK	Media	833	1.20
Nordic Telecommunications	Euro	Denmark	Telecommunications	754	1.08
Wind Acquisition	Euro	Italy	Telecommunications	723	1.04
UPC	Euro	Netherlands	Media	694	1.00
FS Funding	Euro	Denmark	Commercial services	487	0.70
Investec	£/Euro	UK	Diversified financial services	565	0.81
Fresenius	Euro	Germany	Healthcare	452	0.65
Royal Bank of Scotland	£	UK	Diversified banking	447	0.64
Daily Mail & General Trust	£	UK	Publishing	424	0.61
Virgin Media	£	UK	Telecommunications	415	0.60
Bombardier	Euro	Canada	Miscellaneous manufacturing	395	0.57
Royal Caribbean Cruises	Euro	USA	Leisure time	305	0.44
Ardagh Glass	Euro	Ireland	Packaging & containers	288	0.41
Reynolds	Euro	UK	Undertaking	268	0.39
Rhodia	Euro	France	Chemicals	241	0.35
Cognis	Euro	Germany	Chemicals	222	0.32
IFCO Systems	Euro	Netherlands	Packaging & containers	220	0.32
Impress	Euro	Netherlands	Packaging & containers	218	0.31
Lighthouse	Euro	Italy	Media	173	0.25
F&C Asset Management	£	UK	Diversified financial services	45	0.07
Total High Yield Bonds				**11,684**	**16.81**
Total Investments				**69,537**	**100.0**

Those investments shown in **bold** are the ten largest investments which by value account for 21.84% of the total value of investments (2008: 22.48%).

Report of the Directors

The Directors present the audited financial statements of the Group and their report for the year ended 31 October 2009. The Group comprises Henderson Diversified Income Limited ('the Company') and its wholly owned subsidiary undertaking, Henderson Diversified Income (Luxembourg) s.à.r.l.. The Company commenced trading on the London Stock Exchange on 18 July 2007.

Business Review

The following review is designed to provide information primarily about the Group's business and results for the year ended 31 October 2009. It should be read in conjunction with the Portfolio Managers' Report on pages 4 to 7 which gives a detailed review of the investment activities for the year and an outlook for the future.

a) Status

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

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

The Company intends to continue to manage its affairs so that its investments fully qualify for a stocks and shares component of an ISA.

b) Investment objective and policy

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

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

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

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

c) Financial Review

Total net assets as at 31 October 2009 amounted to £62.236 million (2008: £50.700 million) and the net asset value per ordinary share was 74.4p (2008: 60.6p).

At 31 October 2009 there were 94 (2008: 81) separate investments, as detailed in the Investment Portfolio on pages 8 to 10.

Group net revenue after taxation for the year was £4.525 million (period 5 June 2007 to 31 October 2008: £5.248 million).

Dividends

It is the intention of the Company to make distributions in the form of quarterly dividends payable in March, June, September and December each year. The first interim dividend of 1.75p in respect of the period ended 31 January 2009 was paid on 31 March 2009. The second interim dividend of 1.25p in respect of the period ended 30 April 2009 was paid on 30 June 2009. A third interim dividend of 1.10p in respect of the period ended 31 July 2009 was paid on 30 September 2009. A fourth interim dividend of 1.25p per share in respect of the period ended 31 October 2009 was paid on 31 December 2009. The Company has exceeded its target dividend yield of 1.25% over sterling three month LIBOR.

Report of the Directors

continued

Bank facilities and gearing

The Board has in place facilities which allow it to borrow up to £15.5 million for periods of one, two, three or six months. At 31 October 2009 the Group had drawn down £10.1 million. The facilities are subject to regular review. At 31 October 2009, the ratio of borrowings under the facilities to net assets was 16.2%.

Payment of suppliers

It is the policy of the Company to settle all investment transactions in accordance with the terms and conditions of the relevant markets in which it operates. All other expenses are paid on a timely basis in the ordinary course of business. The Directors do not consider any creditors to represent trade creditors.

Future developments

While the future performance of the Company is dependent, to a large degree, on the performance of international financial markets, which, in turn, are subject to many external factors, the Board's intention is that the Company will continue to pursue its stated investment objective in accordance with the strategy outlined earlier. Further comments on the outlook for the Company for the next twelve months are set out in both the Chairman's Statement (on page 3) and the Portfolio Managers' Report (on pages 4 to 7).

Going Concern

After making enquiries and bearing in mind the nature of the Company's business and assets, the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

d) Performance measurement and key performance indicators

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

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

- *Discount/Premium to net asset value ('NAV')*
  At each Board meeting, the Board monitors the level of the Company's discount/premium to NAV and reviews the average discount/premium for the Company's relevant AIC sector.

  The Company publishes a NAV per share figure on a daily basis through the official newswire of the London Stock Exchange. This figure is calculated in accordance with the AIC formula and since 1 June 2008 has included current financial year revenue; on the same basis as that calculated for the financial statements.

  The NAV excluding current financial year revenue is also published for historical cost comparison.

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

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

e) Management, administration and custody arrangements

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

The management fee is calculated and paid quarterly in arrears at the rate of 0.75% per annum of the net chargeable assets of the Company. A performance fee is also payable in certain circumstances. This fee is calculated and payable at the end of the Company's financial year if the Company's total return in that year exceeds the hurdle return for the year at a rate of 15% of such excess subject to a cap of 1.75% of the Company's net assets in any financial year.

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

Report of the Directors

continued

Administration services and the services of the Company Secretary are provided to the Company by BNP Paribas Securities Services Fund Administration Limited. BNP Paribas SA (Jersey Branch) acts as custodian to the Company's assets. Registrar services are provided by Lloyds TSB Jersey (Services) Limited.

f) Related party transactions

The contracts with Henderson and BNP Paribas are the only related party transactions currently in place. Other than the fees payable in the ordinary course of business, there have been no material transactions with these related parties which have affected the financial position or performance of the Company in the financial year.

g) Principal risks and uncertainties

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

Investment Strategy

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

Market

Market risk arises from uncertainty about the future prices of the Company's investments. This is commented on in Note 14.1 on page 35.

Accounting, legal and regulatory

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

Operational

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

Financial

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

Corporate Governance Statement

a) Applicable Corporate Governance Codes

The Board is accountable to shareholders for the governance of the Company's affairs and has chosen to report in accordance with the provisions of the 2008 Combined Code (the 'Code'). Most of the Company's day-to-day responsibilities are delegated to third parties, the Company has no employees and all the Directors are non-executive. Thus, not all the provisions of the 2008 Combined Code are directly applicable to the Company.

The Financial Reporting Council (the 'FRC') confirmed in February 2009 that it remained the view of the FRC that by following the Corporate Governance Guide for Investment Companies produced by the Association of Investment

Report of the Directors

continued

Companies (the 'AIC Guide'), boards of investment companies should fully meet their obligations in relation to the Combined Code and paragraph 9.8.6 of the Listing Rules. The 2009 AIC Code of Corporate Governance (the 'AIC Code') as explained by the AIC Guide, addresses all the principles set out in Section 1 of the Combined Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to investment companies.

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

There is no standard code of corporate governance in Jersey, where the Company is incorporated, however, the AIC Code was enhanced for Jersey companies in March 2009 to include a statement of support from the Jersey Financial Services Commission.

b) Statement of Compliance

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

Senior independent director

A senior non-executive Director has not been identified as the Board considers that all the Directors have different qualities and areas of expertise on which they may lead where issues arise and to whom concerns can be conveyed.

The role of the chief executive

Since all the Directors are non-executive and day-to-day management responsibilities are sub-contracted to the Manager, the Company does not have a Chief Executive Officer.

Executive directors' remuneration

As the Board has no executive directors, it is not required to comply with the principles of the Code in respect of executive directors' remuneration and does not have a Remuneration Committee. Directors' fees are detailed in the Directors' Remuneration Report on page 21.

Internal audit function

As the Company delegates to third parties its day-to-day operations and has no employees, the Board has determined that there is no requirement for an internal audit function. The Directors review annually whether a function equivalent to an internal audit is needed and will continue to monitor its systems of internal controls in order to provide assurance that they operate as intended.

c) Directors

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

The Articles of Association require that all Directors submit themselves for election by shareholders at the first opportunity following their appointment and shall not remain in office longer than three years since their last election or re-election without submitting themselves for re-election. The Articles also provide that one third of the Directors retire by rotation each year. Mr Manduca and Mr Parker offer themselves for re-election at the forthcoming AGM. The Board considers that there is a balance of skills and experience within the Board and each of the Directors contributes effectively.

Board independence and composition

The Board currently consists of four non-executive directors. All are independent of the Company's Manager and the Company's Administrator.

All the Directors consider that there are no factors which compromise the Directors' independence and that they all contribute to the affairs of the Company in an independent manner.

The Directors are conscious of the need to maintain continuity of the Board. The Board believes that retaining directors with sufficient experience of both the Company and its markets is of great benefit to shareholders and that the Directors have different qualities and areas of expertise on which they may lead where issues arise. Their biographies, set out on page 2, demonstrate a breadth of investment, commercial and professional experience with an international perspective.

Directors' interests

The Directors and their beneficial interests in the Ordinary shares of the Company at the start and end of the financial period are stated over:

Report of the Directors

continued

Ordinary Shares of no par value	31 October 2009	1 November 2008
Paul Manduca (Chairman)	85,000	85,000
Helen Green	–	–
Nigel Parker	–	–
David Smith	5,000	5,000

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

No Director has a service contract with the Company.

Directors' professional development
When a new Director is appointed, he or she will be offered a directors' introductory programme to be held by the Investment Manager. Directors are also provided, on a regular basis, with key information on the Company's policies, regulatory and statutory requirements and internal controls.

Directors' Remuneration
A report on Directors' Remuneration is on page 21.

Directors have agreed letters of appointment with the Company. Copies are available for review by shareholders. 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' Indemnity
Directors' and officers' liability insurance cover is in place in respect of the Directors. The Company's Articles of Association provide an indemnity for Directors in respect of costs which they may incur relating to the defence of any proceedings brought against them arising out of their positions as directors, in which they are acquitted or judgment is given in their favour by the Court.

d) The Board

Responsibilities
The Board meets at least four times each year and deals with the important aspects of the Company's affairs, including the setting and monitoring of investment strategy and the review of investment performance. The Manager takes decisions as to the purchase and sale of individual investments. The Manager also ensures that all Directors receive, in a timely manner, all relevant management, regulatory and financial information.

Representatives of the Manager attend each Board meeting, enabling Directors to probe further on matters of concern or seek clarification on certain issues. Matters specifically reserved for decision by the full Board have been defined and a procedure adopted for Directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company. The Directors have access to the advice and services of the Company Secretary, through its representative who is responsible to the Board for ensuring that Board procedures are followed.

The Board's tenure and succession policy will seek to ensure that the Board is well-balanced and refreshed regularly by the appointment of new directors with the skills and experience necessary, in particular, to replace those lost by directors' retirements. Directors must be able to demonstrate their commitment to the Company. The Board seeks to encompass relevant past and current experience of various areas relevant to the Company's business.

Board Committees
The Board has established Audit and Management Engagement committees with defined terms of reference and duties.

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

- to review and monitor the internal financial control systems and risk management systems on which the Company is reliant;
- to consider annually whether there is a need for the Company to have its own internal audit function;
- to monitor the integrity of the half year and annual financial statements of the Company by reviewing and challenging, where necessary, the actions and judgments of the Manager and the Administrator;
- to meet, if required, with the Company's auditors to review their proposed audit programme of work and the findings of its auditors (the Audit Committee also uses this as an opportunity to assess the effectiveness of the audit process);

Report of the Directors

continued

- to make recommendations to the Board in relation to the appointment of the Company's auditors and to approve the remuneration and terms of engagement of the Company's auditors; and
- to monitor and review annually the Company's auditors' independence, objectivity, effectiveness, resources and qualifications.

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

The Audit Committee has satisfied itself that Grant Thornton Limited, the Company's auditors, are independent.

b) Management Engagement Committee

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

Attendance

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

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

e) Performance Evaluation

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

f) Internal controls

The Board has established an ongoing process for identifying, evaluating and managing any major risks faced by the Company. This process is subject to regular review by the Board and accords with the Internal Control Guidance for Directors on the Combined Code published in September 1999 (the 'Turnbull Guidance') which was revised by the Financial Reporting Council in October 2005. The process has been in place since the launch of the Company and up to the date of the approval of this report.

The Board is responsible overall for the Company's system of internal control and for reviewing its effectiveness taking into account that the activities of the Company are outsourced to external service providers. However, such a system is designed to manage rather than eliminate risks of failure to achieve the Company's business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board, assisted by the Manager, undertook a full review of the Company's business risks and these have been analysed and recorded in a risk map which is reviewed regularly. The Board receives each quarter from the Manager a formal report which details the steps taken to monitor the areas of risk, including those that are not directly the responsibility of the Manager, and which reports the details of any known internal control failures. The Board receives each year from both the Manager and the Administrator a report on their internal controls which includes a report from their auditors on the control policies and procedures in operation. Steps will continue to be taken to embed the system of internal control and risk management into the operation and culture of the Company and its key suppliers.

The Manager 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 the Manager's compliance and risk department on a continuing basis.

By means of the procedures set out above, the Board confirms that it has reviewed the effectiveness of the Company's system of internal control for the year ended 31 October 2009, and to the date of approval of this Annual Report and Financial Statements.

Report of the Directors
continued

g) Accountability and relationship with the Manager and the Administrator

The Statement of Directors' Responsibilities in respect of the financial statements is set out on page 20, the Independent Auditors' Report is set out on page 22 and the Statement of Going Concern on page 12.

The Board has delegated contractually to external agencies, including the Manager, the management of the investment portfolio, the custodial services (which include the safeguarding of the assets), the registration services and the day to day company secretarial, administration and accounting services. Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of services offered, including the control systems in operation in so far as they relate to the affairs of the Company.

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

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

h) Continued appointment of the Manager

The Board considers the arrangements for the provision of investment management and other services to the Company on an ongoing basis. The principal contents of the agreement with the Manager are set out on page 12.

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

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

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

i) Share capital and shareholders

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

Substantial Share Interests

Declarations of notifiable interests in the issued share capital of the Company, at 31 December 2009, are set out below.

Shareholder	% of voting rights
Cazenove Capital Management Ltd	14.99
Brewin Dolphin Securities Ltd	9.93
Midas Capital plc	9.45
Rensburg Sheppard Investment Management Ltd	9.16
Premier Fund Managers	5.14
Turcan Connell Solicitors & Asset Managers	4.99

Report of the Directors
continued

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

It is the intention of the Board that the Annual Report and Notice of AGM be issued to shareholders so as to provide at least twenty working days' notice of the meeting. Shareholders wishing to lodge questions in advance of the meeting and specifically related to the resolutions proposed are invited to do so by writing to the Company Secretary at the address given on page 47.

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

The Board considers that shareholders should be encouraged to attend and participate in the AGM. It is recognised, however, that few shareholders are able to travel to Jersey to attend the formal meeting, and as such a shareholder event will be held in London on Monday 1 March 2010. Full details are set out on page 46. This will give shareholders the opportunity to meet the Chairman and to address questions to the Portfolio Managers who, as the representatives of the Manager, will make a presentation to shareholders.

Board authority to buy back share capital
The Directors seek annual authority from the shareholders to buy back for cancellation or to be held in Treasury, the Company's shares. Further details of the authorities sought at the AGM are set out below.

j) Exercise of voting powers
The Company has approved a corporate governance voting policy which accords with current best practice whilst maintaining a primary focus on investment returns.

Annual General Meeting ('AGM')
The following information is important and requires your immediate attention. If you are in any doubt about the action you should take, you should consult an independent financial adviser, authorised under the Financial Services and Markets Act 2000. If you have sold or transferred all of your Ordinary Shares in the Company, please forward this document with its accompanying form of proxy at once to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for onward transmission to the purchaser or transferee.

The AGM will be held in Jersey on Wednesday 24 February 2010 at 11.00 am. The Notice of Meeting is set out on page 42.

The Directors intend to operate an active discount management policy through the use of share buy backs, if the shares were ever to trade at a substantial discount to net asset value for a significant period. Purchases of Ordinary shares will only be made through the market for cash at prices below the prevailing net asset value per Ordinary share (as last calculated) where the Directors believe such purchases will enhance shareholder value and to assist in narrowing any discount to net asset value at which the Ordinary shares may trade.

On 24 February 2009 the Directors were granted authority to repurchase 12,537,767 Ordinary shares for cancellation. This authority will expire at the forthcoming AGM. In Resolution 6, a Special Resolution, the Board is seeking authority to purchase up to a maximum of 12,537,767 Ordinary shares (representing 14.99% of the current issued share capital). The Directors do not intend to use this authority to purchase the Company's shares unless to do so would result in an increase in net asset value per share and would be in the interests of shareholders generally. The authority being sought shall expire at the conclusion of the Annual General Meeting in 2011 unless such authority is renewed prior to such time.

In Resolution 7, a Special Resolution, the Board is seeking authority to hold up to 10% of the Company's own shares as treasury shares. Subject to the passing of Resolution 6, any Ordinary shares purchased under the authority given in Resolution 7 may be cancelled or held in treasury.

Report of the Directors

continued

Recommendation

The Board considers that the resolutions relating to the above items of special business are in the best interests of shareholders as a whole. Accordingly, the Board unanimously recommends to the shareholders that they vote in favour of the above resolutions to be proposed at the forthcoming AGM.

Directors' Authority to Allot Relevant Securities

There are no provisions under Jersey law which confer rights of pre-emption upon the issue or sale of any class of shares in the Company. Accordingly, the Articles of Association authorise the Directors to allot an unlimited number of Ordinary shares without pre-emption rights applying for shareholders. Ordinary shares will only be issued at a premium to the prevailing net asset value per Ordinary share and, therefore, will not be disadvantageous to existing shareholders. Any future issues of Ordinary shares will be carried out in accordance with the Listing Rules. During the period since launch, 43,140,877 new Ordinary shares have been issued.

Independent Auditors

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

Directors' Statement as to Disclosure of Information to Auditors

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

- to the best of his or her knowledge and belief, there is no information relevant to the preparation of their report of which the Auditors are unaware; and
- he or she has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

For and on behalf of the Board

Nigel Parker
Director
15 January 2010

Statement of Directors' Responsibilities in respect of the Financial Statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable Jersey law and generally accepted accounting principles.

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

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

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

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

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

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

Statement under Disclosure and Transparency Rules
The Directors, who are listed on page 2 of this Annual Report, each confirm to the best of their knowledge that:

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

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

For and on behalf of the Board

Helen Green
Director
15 January 2010

Directors' Remuneration Report

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

Consideration by the Directors of matters relating to Directors' remuneration

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

Statement of the Company's policy on Directors' remuneration

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

The Company's policy is that the fees payable to the Directors should reflect the time spent by the Board on the Company's affairs and the responsibilities borne by the Directors and should be sufficient to enable candidates of high calibre to be recruited. The policy is for the Chairman of the Board and Chairman of the Audit Committee to be paid a higher fee than the other Directors in recognition of their more onerous roles and more time spent. The Company's Articles of Association limit the aggregate fees payable to the Directors to £200,000 per annum. In the period under review, the Directors' fees were paid at the following annual rates: the Chairman £30,000; the Chairman of the Audit Committee £22,000; the other Directors £17,500.

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

Directors' fees and expenses

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

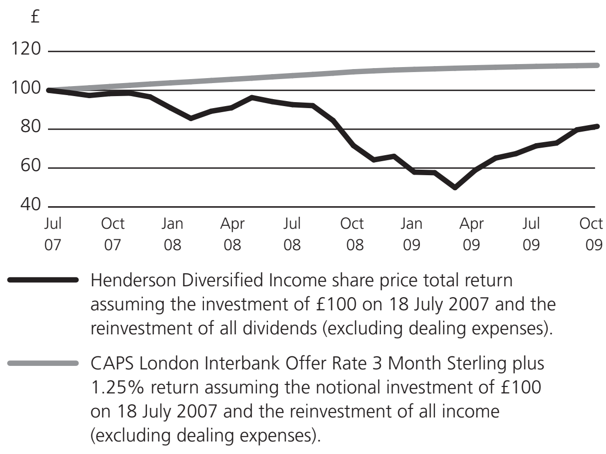
	Year ended 31 October 2009 £'000	Period 5 June 2007 to 31 October 2008 £'000
Paul Manduca (Chairman and highest paid director)	30	42
Helen Green	22	31
Nigel Parker	18	24
David Smith	18	24
Total	88	121

Mrs Green's fees are paid to Saffery Champness.

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

The graph below illustrates the total shareholder return as compared to the absolute return objective of 1.25% over three month sterling LIBOR for the period from launch on 18 July 2007 to 31 October 2009.

Share price performance graph



Sources: Fundamental Data and IMSE

For and on behalf of the Board

Helen Green

Director

15 January 2010

Independent Auditors' Report to the members of Henderson Diversified Income Limited

We have audited the financial statements of Henderson Diversified Income Limited for the year ended 31 October 2009 which comprise the Consolidated Income Statement, the Consolidated and Parent Company Statement of Changes in Equity, the Consolidated and Parent Company Balance Sheet, the Consolidated and Parent Company Cash Flow Statement and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB').

This report is made solely to the Company's members, as a body, in accordance with Article 110 of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities on page 20 the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit the financial statements in accordance with applicable legal and regulatory requirements and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the Parent Company's affairs as at 31 October 2009 and of the Group and the Parent Company's profit for the year then ended;
- have been properly prepared in accordance with IFRS issued by the IASB, to the extent that IFRS has been adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

Matters on which we are required to report by exception

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

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

Grant Thornton Limited
Chartered Accountants
St. Helier, Jersey, Channel Islands

15 January 2010

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

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

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

Consolidated Income Statement

for the year ended 31 October 2009

Notes		**Year ended 31 October 2009** Revenue return £'000	Capital return £'000	Total £'000	Period 5 June 2007 to 31 October 2008 Revenue return £'000	Capital return £'000	Total £'000
11	Gains/(losses) on investments designated as fair value through profit or loss	**–**	**16,661**	**16,661**	–	(22,083)	(22,083)
	Losses on foreign exchange transactions	**–**	**(4,226)**	**(4,226)**	–	(6,091)	(6,091)
3	Investment income	**5,381**	**–**	**5,381**	5,027	–	5,027
4	Other income	**26**	**–**	**26**	1,252	–	1,252
	Total income/(loss)	**5,407**	**12,435**	**17,842**	6,279	(28,174)	(21,895)
	Expenses						
5	Management fee	**(215)**	**(216)**	**(431)**	(236)	(236)	(472)
6	Other expenses	**(560)**	**–**	**(560)**	(652)	–	(652)
	Profit/(loss) before finance costs and taxation	**4,632**	**12,219**	**16,851**	5,391	(28,410)	(23,019)
7	Finance costs	**(107)**	**(106)**	**(213)**	(117)	(117)	(234)
	Profit/(loss) before taxation	**4,525**	**12,113**	**16,638**	5,274	(28,527)	(23,253)
8	Taxation	**–**	**–**	**–**	(26)	–	(26)
	Profit/(loss) for the period	**4,525**	**12,113**	**16,638**	5,248	(28,527)	(23,279)
9	**Earnings/(loss) per ordinary share**	**5.41p**	**14.48p**	**19.89p**	9.59p	(52.15)p	(42.56)p

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

All items in the above statement derive from continuing operations.

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

Consolidated and Parent Company Statement of Changes in Equity

for the year ended 31 October 2009

Note	**Consolidated year ended 31 October 2009**	**Stated capital £'000**	**Distributable reserve £'000**	**Capital reserves £'000**	**Revenue reserve £'000**	**Total £'000**
	Balance at 31 October 2008	**37,677**	**39,832**	**(28,527)**	**1,718**	**50,700**
	Net profit from ordinary activities after taxation	**–**	**–**	**12,113**	**4,525**	**16,638**
10	**Ordinary dividends paid**	**–**	**–**	**–**	**(5,102)**	**(5,102)**
	At 31 October 2009	**37,677**	**39,832**	**(16,414)**	**1,141**	**62,236**

Note	**Company year ended 31 October 2009**	**Stated capital £'000**	**Distributable reserve £'000**	**Capital reserves £'000**	**Revenue reserve £'000**	**Total £'000**
	Balance at 31 October 2008	**37,677**	**39,832**	**(24,792)**	**(2,017)**	**50,700**
	Net profit from ordinary activities after taxation	**–**	**–**	**14,691**	**1,947**	**16,638**
10	**Ordinary dividends paid**	**–**	**–**	**–**	**(5,102)**	**(5,102)**
	At 31 October 2009	**37,677**	**39,832**	**(10,101)**	**(5,172)**	**62,236**

Note	Consolidated period 5 June 2007 to 31 October 2008	Stated capital £'000	Distributable reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
	Opening balance	–	–	–	–	–
	Issue of shares	78,917	–	–	–	78,917
	Share issue costs	(1,408)	–	–	–	(1,408)
	Transfer to distributable reserve	(39,832)	39,832	–	–	–
	Net (loss)/profit from ordinary activities after taxation	–	–	(28,527)	5,248	(23,279)
10	Ordinary dividends paid	–	–	–	(3,530)	(3,530)
	At 31 October 2008	37,677	39,832	(28,527)	1,718	50,700

Note	Company period 5 June 2007 to 31 October 2008	Stated capital £'000	Distributable reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
	Opening balance	–	–	–	–	–
	Issue of shares	78,917	–	–	–	78,917
	Share issue costs	(1,408)	–	–	–	(1,408)
	Transfer to distributable reserve	(39,832)	39,832	–	–	–
	Net (loss)/profit from ordinary activities after taxation	–	–	(24,792)	1,513	(23,279)
10	Ordinary dividends paid	–	–	–	(3,530)	(3,530)
	At 31 October 2008	37,677	39,832	(24,792)	(2,017)	50,700

The notes on pages 27 to 41 form an integral part of these financial statements

Consolidated and Parent Company Balance Sheet

at 31 October 2009

Notes		Consolidated 2009 £'000	Company 2009 £'000	Consolidated 2008 £'000	Company 2008 £'000
	Non current assets				
11	Investments designated as fair value through profit or loss	**69,537**	**33,174**	58,305	18,257
	Current assets				
12	Other receivables	**4,489**	**39,322**	4,097	40,701
	Cash and cash equivalents	**492**	**215**	947	546
		4,981	**39,537**	5,044	41,247
	Total assets	**74,518**	**72,711**	63,349	59,504
	Current liabilities				
13	Other payables	**(12,282)**	**(10,475)**	(12,649)	(8,804)
	Net assets	**62,236**	**62,236**	50,700	50,700
	Equity attributable to equity shareholders				
15	Stated capital	**37,677**	**37,677**	37,677	37,677
16	Distributable reserve	**39,832**	**39,832**	39,832	39,832
	Retained earnings:				
17	Capital reserves	**(16,414)**	**(10,101)**	(28,527)	(24,792)
	Revenue reserve	**1,141**	**(5,172)**	1,718	(2,017)
	Total equity	**62,236**	**62,236**	50,700	50,700
18	**Net asset value per ordinary share**	**74.4p**	**74.4p**	60.6p	60.6p

The financial statements were approved by the Board of Directors and authorised for issue on 15 January 2010 and were signed on its behalf by:

Helen Foster Green
Director

Nigel Robert Parker
Director

The notes on pages 27 to 41 form an integral part of these financial statements

Consolidated and Parent Company Cash Flow Statement

for the year ended 31 October 2009

	Consolidated year ended 31 October 2009 £'000	**Company year ended 31 October 2009 £'000**	Consolidated Period 5 June 2007 to 31 October 2008 £'000	Company Period 5 June 2007 to 31 October 2008 £'000
Net gain/(loss) before taxation	**16,638**	**16,638**	(23,253)	(23,279)
Add back interest paid	**213**	**212**	234	228
(Less)/add: (gains)/losses on investments designated as fair value through profit or loss	**(12,435)**	**(15,013)**	28,174	24,442
Less: exchange movements on forward exchange contracts taken to revenue	**(12)**	**(2)**	(435)	(127)
Increase in prepayments and accrued income	**(61)**	**(424)**	(1,092)	(607)
Decrease/(increase) in other receivables	**143**	**143**	(144)	(144)
(Decrease)/increase in other payables	**(167)**	**(246)**	455	383
Net sales/(purchases) of investments	**4,468**	**(6,698)**	(80,699)	(24,930)
Decrease/(increase) in sales settlement debtor	**946**	**–**	(2,285)	–
(Decrease)/increase in purchase settlement creditor	**(770)**	**253**	2,665	12
Net cash inflow/(outflow) from operating activities before finance costs	**8,963**	**(5,137)**	(76,380)	(24,022)
Interest paid	**(213)**	**(212)**	(234)	(228)
Taxation on investment income	**(12)**	**–**	(50)	–
Net cash inflow/(outflow) from operating activities	**8,738**	**(5,349)**	(76,664)	(24,250)
Financing activities				
Equity dividends paid	**(5,102)**	**(5,102)**	(3,530)	(3,530)
Issue of ordinary shares	**–**	**–**	78,917	78,917
Issue expenses paid	**–**	**–**	(1,408)	(1,408)
Drawdown of loan	**2,322**	**2,322**	7,810	7,810
Amounts paid from/(to) subsidiary undertaking	**–**	**9,251**	–	(55,813)
Net cash (outflow)/inflow from financing	**(2,780)**	**6,471**	81,789	25,976
Increase in cash and cash equivalents	**5,958**	**1,122**	5,125	1,726
Cash and cash equivalents at the start of the period	**947**	**546**	–	–
Exchange movements	**(6,413)**	**(1,453)**	(4,178)	(1,180)
Cash and cash equivalents at the period end	**492**	**215**	947	546

The notes on pages 27 to 41 form an integral part of these financial statements

Notes to the Financial Statements

1 General information

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

The Company was incorporated on 5 June 2007. The first full accounting period ran from 5 June 2007 to 31 October 2008, and forms the comparative figures to this report. The year under review is the twelve month period to 31 October 2009.

2 Accounting policies

a Basis of preparation

This consolidated financial information for the year ended 31 October 2009 has been prepared in accordance with International Financial Reporting Standards ('IFRS'). These comprise standards and interpretations approved by the International Accounting Standards Board ('IASB'), together with interpretations of the International Accounting Standards and Standing Interpretations Committee approved by the International Accounting Standards Committee ('IASC') that remain in effect, to the extent that IFRS have been adopted by the European Union ('EU').

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

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

- IAS 1 (Revised) 'Presentation of Financial Statements' (effective for financial years beginning on or after 1 January 2009). Introduces financial statement name changes for the purposes of accounting standards. The new names are not mandatory for financial reporting and the Group does not currently expect to apply the new statement names.
- IAS 23 (Amendment) Borrowing costs (effective for financial years beginning on or after 1 January 2009). The amendment to the standard is still subject to endorsement by the EU. It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. The Group has no qualifying assets but expects to apply the standard from 1 November 2009 if it becomes applicable.
- IAS 27 (Revised). 'Consolidated and Separate Financial Statements' (Consequential amendments arising from IFRS 3 'Business Combinations') (effective for financial years beginning on or after 1 July 2009, subject to endorsement by the EU). This standard is unlikely to have any significant impact on the Group. The Group expects to apply IAS 27 from 1 November 2009.
- IFRS 8 Operating segments (effective for financial years beginning on or after 1 January 2009). IFRS 8 replaces IAS 14 and aligns segmental reporting with the requirements of the US standard SFAS 131 *Disclosures about segments of an enterprise and related information*. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group expects to apply IFRS 8 from 1 November 2009. The new statement may result in additional disclosures.
- IAS 39 (Amendment), 'Financial Instruments: Recognition and Measurement'. The amendment permits an entity to reclassify particular financial assets in some circumstances. The Group and Company will apply the IAS 39 (Amendment) from 1 November 2009. It is not expected to have an impact on the Group or Company's financial statements.

Notes to the Financial Statements

continued

2 **Accounting policies** (continued)

There are also some minor amendments to a number of standards, which are part of the IASB's annual improvements project published in May 2008. These amendments are subject to endorsement by the EU and they are unlikely to have any significant impact on the Group or Company's financial statements.

b Basis of consolidation

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

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

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

c Investments designated as fair value through profit or loss

All loans and bonds are designated as held at fair value through profit or loss. Assets are de-recognised at the trade date of the disposal. Proceeds will be measured at fair value, which will be regarded as the proceeds of sale less any transaction costs. The fair value of the financial instruments is based on their quoted bid price at the balance sheet date, without deduction of the estimated future selling costs.

Changes in the fair value of investments held at fair value through profit or loss and gains and losses on disposal are recognised in the Consolidated Income Statement as 'Gains or losses on investments held at fair value through profit or loss'. Also included within this caption are transaction costs in relation to the purchase or sale of investments, including the difference between the purchase price of an investment and its bid price at the date of purchase.

d Income

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

e Expenses

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

f Taxation

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

Notes to the Financial Statements
continued

2 Accounting policies (continued)

g Foreign currency

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

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

h Cash and cash equivalents

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

i Bank borrowings

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

j Segmental reporting

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

k Derivative financial instruments

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

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

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

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

Notes to the Financial Statements

continued

3	**Investment income**	**Year ended 31 October 2009 £'000**	Period 5 June 2007 to 31 October 2008 £'000
	Income from investments:		
	Bond and loan interest	**5,193**	4,949
	Premiums on credit default swaps	**188**	78
		5,381	5,027

4	**Other income**	**Year ended 31 October 2009 £'000**	Period 5 June 2007 to 31 October 2008 £'000
	Bank and other interest	**14**	817
	Interest income from forward exchange contracts	**12**	435
		26	1,252

		Year ended 31 October 2009			Period 5 June 2007 to 31 October 2008		
5	**Management fee**	**Revenue return £'000**	**Capital return £'000**	**Total £'000**	Revenue return £'000	Capital return £'000	Total £'000
	Investment management fee	**215**	**216**	**431**	236	236	472

A summary of the terms of the management agreement is given in the Report of the Directors on page 12.

6	**Other expenses**	**Year ended 31 October 2009 £'000**	Period 5 June 2007 to 31 October 2008 £'000
	Directors' fees† (see the Directors' Remuneration Report on page 21)	**97**	134
	Auditors' remuneration* (including £8,000 (2008: £5,000) relating to the subsidiary):		
	– statutory audit	**33**	30
	– interim accounts review	**–**	4
	– tax services for the subsidiary	**5**	5
	Bank and custody charges	**133**	98
	Advisory and consultancy fees	**–**	55
	Administration and Company Secretarial services	**197**	226
	Registrar's fees	**23**	26
	Stock exchange fees	**15**	18
	Printing and stationery	**12**	20
	Other expenses	**45**	36
		560	652

*In addition £nil (2008: £65,000) of non-audit fees have been paid to Grant Thornton UK LLP as reporting accountants in connection with the share issues and have been deducted from stated capital together with the share issue expenses.

†Includes £9,000 (2008: £13,000) paid to the directors of the Luxembourg subsidiary.

Notes to the Financial Statements
continued

7 Finance costs	**Year ended 31 October 2009** Revenue return £'000	Capital return £'000	Total £'000	Period 5 June 2007 to 31 October 2008 Revenue return £'000	Capital return £'000	Total £'000
	107	**106**	**213**	117	117	234

8 Taxation	**Year ended 31 October 2009** Revenue return £'000	Capital return £'000	Total £'000	Period 5 June 2007 to 31 October 2008 Revenue return £'000	Capital return £'000	Total £'000
The taxation charge for the period is comprised of the following:						
Foreign withholding tax suffered	**24**	**–**	**24**	50	–	50
Less: foreign tax recoverable	**(24)**	**–**	**(24)**	(50)	–	(50)
Luxembourg tax	**–**	**–**	**–**	26	–	26
	–	**–**	**–**	26	–	26

The taxation on profit differs from the theoretical expense that would apply on the Company's profit before taxation using the applicable tax rate in Jersey of 0% (2008: 20%) as follows:

	Year ended 31 October 2009 £'000	Period 5 June 2007 to 31 October 2008 £'000
Profit/(loss) before taxation	**16,638**	(23,253)
Theoretical taxation expense at nil (2008: 20%)	**–**	(4,651)
Tax effect of:		
– Jersey exempt tax relief	**–**	4,651
– Luxembourg tax	**–**	26
Tax charge for the period	**–**	26

9 Earnings/(loss) per ordinary share

The earnings/(loss) per ordinary share figure is based on the net profit for the year after taxation of £16.638 million (period ended 31 October 2008: loss of £23.279 million) and on 83,640,877 (2008: 54,697,104) being the weighted average number of ordinary shares in issue during the period.

The earnings per ordinary share figure detailed above can be further analysed between revenue and capital, as overleaf.

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

Notes to the Financial Statements

continued

9	**Earnings/(loss) per ordinary share** (continued)	**Year ended 31 October 2009 £'000**	Period 5 June 2007 to 31 October 2008 £'000
	Net revenue earnings	**4,525**	5,248
	Net capital earnings/(loss)	**12,113**	(28,527)
	Net total earnings/(loss)	**16,638**	(23,279)
	Weighted average number of ordinary shares in issue during the period	**83,640,877**	54,697,104
	Revenue earnings per ordinary share	**5.41p**	9.59p
	Capital earnings/(loss) per ordinary share	**14.48p**	(52.15)p
	Total earnings/(loss) per ordinary share	**19.89p**	(42.56)p

10	**Dividends**	**Record Date**	**Pay Date**	**2009 £'000**	2008 £'000
	First interim dividend – 1.50p	14 December 2007	31 December 2007		608
	Second interim dividend – 1.75p	14 March 2008	31 March 2008		709
	Third interim dividend – 3.40p	23 May 2008	20 June 2008		1,377
	Fourth interim dividend – 1.00p	12 September 2008	30 September 2008		836
	Fifth interim dividend – 2.00p	12 December 2008	31 December 2008	**1,672**	
	First interim dividend – 1.75p	13 March 2009	31 March 2009	**1,464**	
	Second interim dividend – 1.25p	12 June 2009	30 June 2009	**1,046**	
	Third interim dividend – 1.10p	11 September 2009	30 September 2009	**920**	
				5,102	3,530

The fourth interim dividend has not been included as a liability in these financial statements as it was announced and paid after 31 October 2009.

The table below sets out the total dividends paid and to be paid in respect of the financial year. The revenue available for distribution by way of dividend for the period is £4.525 million (2008: £5.248 million).

	2009 £'000
First interim dividend for 2009 – 1.75p	**1,464**
Second interim dividend for 2009 – 1.25p	**1,046**
Third interim dividend for 2009 – 1.10p	**920**
Fourth interim dividend for 2009 – 1.25p	**1,046**
	4,476

Notes to the Financial Statements

continued

11 Investments designated as fair value through profit or loss	**Listed Investments £'000**	**Unlisted Investments £'000**	**Total £'000**
a Consolidated			
Cost at 31 October 2008	**24,236**	**54,697**	**78,933**
Investment holding losses at 31 October 2008	**(5,979)**	**(14,649)**	**(20,628)**
Valuation at 31 October 2008	**18,257**	**40,048**	**58,305**
Movements in the period:			
Purchases at cost	**14,636**	**986**	**15,622**
Sales – proceeds	**(8,709)**	**(12,154)**	**(20,863)**
– realised losses on sales of investments designated as fair value through profit or loss	**(899)**	**(6,617)**	**(7,516)**
Movement in investment holding	**9,889**	**14,100**	**23,989**
Closing valuation at 31 October 2009	**33,174**	**36,363**	**69,537**

	Listed Investments £'000	**Subsidiary Undertaking £'000**	**Total £'000**
b Company			
Cost at 31 October 2008	**24,236**	**8**	**24,244**
Investment holding losses at 31 October 2008	**(5,979)**	**(8)**	**(5,987)**
Valuation at 31 October 2008	**18,257**	**–**	**18,257**
Movements in the period:			
Purchases at cost	**14,636**	**–**	**14,636**
Sales – proceeds	**(8,709)**	**–**	**(8,709)**
– realised losses on sales of investment designated as fair value through profit or loss	**(899)**	**–**	**(899)**
Movement in investment holding gains	**9,889**	**–**	**9,889**
Closing valuation at 31 October 2009	**33,174**	**–**	**33,174**

	2009 £'000	2008 £'000
c Gains/(losses) on investments designated as fair value through profit or loss		
Realised losses on sales of investments designated as fair value through profit or loss	**(7,516)**	(1,522)
Movement in investment holdings gains/(losses) designated as fair value through profit or loss	**23,989**	(20,628)
Unrealised (loss)/gain held at fair value through profit or loss on future contracts	**(164)**	154
Unrealised gain/(loss) held at fair value through profit or loss on credit default swaps	**352**	(87)
	16,661	(22,083)

d Transaction costs

During the year expenses amounting to £2,000 (period to 31 October 2008: £1,000) were incurred in acquiring or disposing of investments designated as at fair value through profit or loss. These have been expensed through capital and are included within gains on investments designated as fair value through profit or loss in the Consolidated Income Statement.

Notes to the Financial Statements
continued

11 Investments held at fair value through profit or loss (continued)

e Subsidiary undertaking

The Company has an investment in the issued share capital in its wholly owned limited liability subsidiary undertaking, Henderson Diversified Income (Luxembourg) s.à.r.l.. This is a limited liability company, registered under the laws of the Grand Duchy of Luxembourg and was incorporated on 1 August 2007. In addition, the Company has made a loan to the subsidiary undertaking of £50.677 million (2008: £58.419 million). After providing for the net deficit in the subsidiary of £13.886 million (2008: £18.995 million) the loan has been written down to £36.791 million (2008: £39.424 million).

The subsidiary is valued at cost less impairment.

12 Other receivables	**Consolidated 2009 £'000**	Consolidated 2008 £'000	**Company 2009 £'000**	Company 2008 £'000
Amounts due from brokers	**1,339**	2,285	**–**	–
Amounts due from subsidiary	**–**	–	**36,791**	39,424
Prepayments and accrued income	**1,153**	1,092	**1,031**	607
Withholding tax recoverable	**62**	50	**–**	–
Futures contracts held at fair value through profit or loss	**–**	154	**–**	154
Credit default swaps held at fair value through profit or loss	**1,282**	372	**1,282**	372
Forward exchange contracts held at fair value through profit or loss	**652**	–	**217**	–
Other receivables	**1**	144	**1**	144
	4,489	4,097	**39,322**	40,701

13 Other payables	**Consolidated 2009 £'000**	Consolidated 2008 £'000	**Company 2009 £'000**	Company 2008 £'000
Amounts due to brokers	**1,895**	2,665	**265**	12
Bank loan	**10,063**	7,741	**10,063**	7,741
Taxation payable	**26**	26	**–**	–
Credit default swaps held at fair value through profit or loss	**–**	215	**–**	215
Forward exchange contracts held at fair value through profit or loss	**–**	1,547	**–**	453
Future contracts held at fair value through profit or loss	**10**	–	**10**	–
Other payables	**288**	455	**137**	383
	12,282	12,649	**10,475**	8,804

14 Risk Management policies and procedures

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

Notes to the Financial Statements
continued

14 Risk Management policies and procedures (continued)

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

14.1 Market risk

The fair value or future cash flows of a financial instrument held by the Group may fluctuate due to changes in market prices. This market risk comprises currency risk (see note 14.2), interest rate risk (see note 14.3) and other price risk (see note 14.4). The Board of Directors reviews and agrees policies for managing these risks. The Investment Manager assesses the exposure to market risk when making each investment decision, and monitors the overall level of market risk on the whole of the investment portfolio on an ongoing basis.

14.2 Currency risk

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

Management of the risk

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

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

Foreign currency exposure

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

	2009		2008	
	US$ £'000	**Euro £'000**	US$ £'000	Euro £'000
Investments at fair value through profit or loss that are monetary items	**8,956**	**29,452**	8,483	28,050
Receivables (due from brokers, dividends and other income receivable)	**131**	**1,683**	101	2,761
Cash at bank and on deposit	**32**	**87**	213	402
Payables (due to brokers, accruals and other creditors)	**–**	**(1,034)**	(3)	(2,676)
Borrowings under multi currency loan facility	**–**	**(448)**	(848)	(6,093)
Forward currency sales	**(9,063)**	**(31,495)**	(8,171)	(24,183)
Credit default swaps	**32**	**1,250**	(13)	170
Gains on futures contracts	**37**	**615**	13	152
Total net foreign exposure	**125**	**110**	(225)	(1,417)

Notes to the Financial Statements

continued

14 Risk Management policies and procedures (continued)

14.2 *Foreign currency sensitivity*

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

14.3 Interest rate risk

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

Management of the risk

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

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

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

The Group had interest rate hedges in place at 31 October 2009 of £2.252 million (2008: £4.969 million).

Interest rate exposure

The exposure at 31 October 2009 of financial assets and financial liabilities to interest rate risk is shown by reference to:
– floating interest rates – when the interest rate is due to be re-set
– fixed interest rates – when the financial instrument is due for repayment

	2009				2008			
	Within one year £'000	**One to five years £'000**	**More than five years £'000**	**Total £'000**	Within one year £'000	One to five years £'000	More than five years £'000	Total £'000
Exposure to floating interest rates:								
Investments held at fair value through profit or loss	**42,257**	**–**	**–**	**42,257**	41,142	–	–	41,142
Cash at bank	**492**	**–**	**–**	**492**	947	–	–	947
Bank loan	**(10,063)**	**–**	**–**	**(10,063)**	(7,741)	–	–	(7,741)
	32,686	**–**	**–**	**32,686**	34,348	–	–	34,348
Exposure to fixed interest rates:								
Investments held at fair value through profit or loss	**–**	**4,143**	**23,137**	**27,280**	–	2,554	14,609	17,163
Total exposure to interest rates	**32,686**	**4,143**	**23,137**	**59,966**	34,348	2,554	14,609	51,511

Notes to the Financial Statements
continued

14 Risk Management policies and procedures (continued)

14.3 Interest rate risk (continued)

At 31 October 2009, the Group had gross nominal exposure to interest rate futures to the value of £2.252 million (2008: £28.704 million).

The interest rate futures used during the year under review were a combination of long and short risk positions in the gilt (UK government bond) future, a long risk position in the Bobl (five year German government bond) future and the Bund (ten year German government bond) and long and short positions in the ten year Treasury future.
Interest receivable is at the following rates:

- Interest received on cash balances, or paid on bank overdrafts and loans, is at margin over LIBOR or its foreign currency equivalent
- The weighted average effective interest rate of the Group's investments is 5.2% (2008: 7.5%)

Interest rate sensitivity

The Group's portfolio at 31 October 2009 was valued at £69.537 million (2008: £58.305 million) and it has a modified duration (interest rate sensitivity) of approximately 2.4 years (2008: 4.6 years). A 100 basis point change in short term interest rates (up or down), which is mirrored by an equivalent change in long term rates, would be expected to decrease or increase this portfolio's value by approximately £1.669 million (2008: £2.694 million) all other factors being equal.

14.4 Other price risk

In addition to foreign currency and interest rate risk, the Group is also exposed to other price risk due to short term market price changes and default risk. A 10% increase or decrease in market prices would increase or decrease net profit after tax and shareholders' funds by £6.902 million (2008: £5.787 million) (equivalent to an increase or decrease in net asset value per share of 11.1% (2008: 11.4%)).

14.5 Liquidity risk

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

Management of the risk

Liquidity risk is monitored by the Manager on a daily basis to ensure financial liabilities can be paid as they fall due. Both the Corporate Bond portfolio and the Loan portfolio although traded over the counter, can be realised at or around the prevailing bid prices. The Corporate Bond portfolio is generally considered more liquid than the Loan portfolio. The Group also has a multi-currency loan facility of £15.5 million (2008: £15.5 million), of which £10.063 million was drawn down at 31 October 2009 (2008: £7.741 million). This facility is subject to regular review and unless renewed will expire on 1 November 2010.

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

Notes to the Financial Statements

continued

14 Risk Management policies and procedures (continued)

14.5 Liquidity risk (continued)

Liquidity risk exposure

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

	At 31 October 2009		At 31 October 2008			
	3 months or less £'000	**Total £'000**	3 months or less £'000	More than 3 months, less than one year £'000	More than one year £'000	Total £'000
Current liabilities						
Forward currency deals	**–**	**–**	1,547	–	–	1,547
Unrealised loss on credit default swaps	**–**	**–**	–	–	215	215
Unrealised loss on future contracts	**10**	**10**	–	–	–	–
Amounts due to brokers, accruals and tax payable	**2,208**	**2,208**	3,120	26	–	3,146
Bank loans	**10,073**	**10,073**	7,741	–	–	7,741
	12,291	**12,291**	12,408	26	215	12,649

The Group also has exposure of £10.692 million (2008: £9.383 million) in respect of credit default swaps where protection has been sold.

14.6 Credit risk

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

Management of the risk

The risk is significant, and is managed as follows:

- where the Investment Manager makes an investment in a bond, corporate or otherwise, the credit rating of the issuer is taken into account so as to determine the risk to the Group of default.
- investments in bonds and loans are made across a variety of industry sectors and geographical markets, so as to avoid concentrations of credit risk. At 31 October 2009 investments totalling £2.013 million were past due or impaired;
- transactions involving derivatives are entered into only with investment banks, the credit rating of which is taken into account so as to minimise the risk to the Group of default;
- investment transactions are carried out with a large number of brokers, whose credit standard is reviewed periodically by the Investment Manager, and limits are set on the amount that may be due from any one broker; and
- cash at bank is held only with reputable banks with high quality external credit ratings.

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

Notes to the Financial Statements
continued

14 Risk Management policies and procedures (continued)

14.6 Credit risk (continued)

To the extent that the credit derivative exposure is not covered by cash held by the Group then any net long exposure would act as synthetic gearing. Credit default swaps are used by the Manager for two purposes. By selling protection (going long risk) the Manager can increase the Group's exposure to a particular reference entity. In return for taking this credit risk the Group will receive a specified income over the life of the contract but will be exposed to capital losses should the reference entity breach the terms of the contract (e.g. default) in the intervening period. This reference entity may be a specific company, or in the case of ITRAXX indices, a basket of credit exposures, for example senior financials. At 31 October 2009, the gross exposure to single name credit default swaps and ITRAXX indices was £3.642 million and £7.050 million respectively (2008: £5.331 million and £4.052 million respectively).

By contrast the Manager may buy protection (take a short risk position) on a reference entity to reduce the overall credit exposure. This would involve the payment of premium in order to protect against possible capital losses in the future. At 31 October 2009 the gross exposure was £nil (2008: £3.554 million).

14.7 Fair values of financial assets and financial liabilities

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

Current assets and current liabilities: forward currency sales are valued on the basis of exchange rates for a similar contract for the same residual duration, as provided by the counterparty. The amount of change in fair value for such forward exchange contracts recognised in the Consolidated Income Statement for the period was a loss of £3.534 million (2008: £4.186 million). The forward currency transactions serve to hedge back the value of Euro and US Dollar denominated securities to sterling, the base currency of the Group.

Credit default swaps are fair valued. The amount of change in fair value recognised in the Consolidated Income Statement for the period for credit default swaps was a gain of £0.902 million (2008: loss of £0.135 million).

14.8 Capital management policies and procedures

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

through an appropriate balance of equity capital and debt.

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

The Group had borrowings totalling £10.063 million at 31 October 2009 (2008: £7.741 million).

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

The Group is subject to the following externally imposed capital requirement:
– Under the multi currency facility, any borrowings are not to exceed 20% of adjusted net assets as defined under the loan agreement.

The Group has complied with these requirements during the period.

Notes to the Financial Statements

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15	Stated capital	Stated Capital £'000	Number of fully paid shares issued
	As at 31 October 2008 and 2009	**37,677**	**83,640,877**

On 18 July 2007 the Company issued 40,500,000 Ordinary shares of no par value for consideration value of £40.5 million, incurring £0.668 million of issue expenses. On 5 October 2007, in accordance with Jersey Company Law, the Company successfully applied for a reduction in the stated capital account and the creation of a distributable reserve. On 23 May 2008 the Company issued a further 43,140,877 Ordinary shares in the Company for a consideration value of £38.417 million incurring £0.74 million of issue expenses.

16	Distributable reserve	Consolidated and Company £'000
	As at 31 October 2008 and 2009	**39,832**

17	Capital reserves	Capital reserve arising on revaluation of investments held £'000	Capital reserve arising on investments sold £'000	Total £'000
	Consolidated			
	At 1 November 2008	(22,108)	(6,419)	(28,527)
	Losses on futures contracts	(164)	–	(164)
	Exchange movements	2,199	(6,425)	(4,226)
	Movement in investment holding losses	23,989	–	23,989
	Losses on investments	–	(7,516)	(7,516)
	Costs charged to capital	–	(322)	(322)
	Movement in credit default swaps	352	–	352
	At 31 October 2009	**4,268**	**(20,682)**	**(16,414)**

	Capital reserve arising on revaluation of investments held £'000	Capital reserve arising on investments sold £'000	Total £'000
Company			
At 1 November 2008	(22,762)	(2,030)	(24,792)
Losses on futures contracts	(164)	–	(164)
Exchange movements	670	(1,455)	(785)
Movement in investment holding losses	9,889	–	9,889
Provision for subsidiary	6,620	–	6,620
Losses on investments	–	(899)	(899)
Costs charged to capital	–	(322)	(322)
Movement in credit default swaps	352	–	352
At 31 October 2009	**(5,395)**	**(4,706)**	**(10,101)**

Notes to the Financial Statements

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18 Net asset value per ordinary share

The net asset value per ordinary share is based on the net asset value attributable to ordinary shareholders at the year end of £62.236 million (2008: period end of £50.700 million) and on 83,640,877 (2008: 83,640,877) ordinary shares, being the number of ordinary shares in issue at the period end.

19 Transactions with the Manager

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

Details of the fee arrangements for these services are given in the Report of the Directors on page 12. The total of the fees paid or payable under this agreement to Henderson in respect of the year was £431,000 (period ended 31 October 2008: £472,000) of which £45,000 (period ended 31 October 2008: £175,000) was outstanding at 31 October 2009.

Notice of Meeting

Notice is hereby given that the third Annual General Meeting of Henderson Diversified Income Limited will be held at **Liberté House, 19-23 La Motte Street, St. Helier, Jersey, JE2 4SY on Wednesday 24 February 2010 at 11.00am** for the following purposes:

To consider and, if thought fit, pass the following Resolutions which will be proposed as Ordinary Resolutions:

1 To receive the Report of the Directors and financial statements for the year ended 31 October 2009, together with the auditors' report thereon.

2 To approve the Directors' Remuneration Report.

3 To re-elect Mr Paul Manduca as a Director.

4 To re-elect Mr Nigel Parker as a Director.

5 To re-appoint Grant Thornton Limited as independent auditors and to authorise the Directors to agree their remuneration.

Special Business

As special business, to consider the following Resolutions, which will be proposed as Special Resolutions:

6 THAT, the Company be and is hereby generally and unconditionally authorised to make market purchases on a stock exchange of, and to cancel or (subject to Resolution 7) hold as treasury shares, Ordinary shares of no par value in the capital of the Company ('shares'), provided that:

(a) the maximum number of shares hereby authorised to be purchased is 14.99 per cent. of the issued share capital of the Company as at the date of the passing of this Resolution;

(b) the maximum price which may be paid for a share shall not be more than the higher of (i) an amount equal to 105 per cent. of the average of the middle market quotations for a share taken from the Official List for the five business days immediately preceding the day on which the share is purchased; and (ii) the higher of the last independent trade and the current highest independent bid on the trading venue where the purchase is carried out;

(c) the minimum price which may be paid for a share is one penny;

(d) the Company be authorised to purchase shares out of its unrealised capital or revenue profits less its capital or revenue losses, whether realised or unrealised; and

(e) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company or, if earlier, on the expiry of 18 months from the passing of this Resolution, unless such authority is renewed prior to such time.

7 THAT, the Company be and is hereby generally and unconditionally authorised to hold up to 10 per cent of the Company's own shares (whether purchased pursuant to Resolution 6 or otherwise) as treasury shares pursuant and subject to Articles 58A and 58B of the Companies (Jersey) Law 1991, as amended.

By order of the Board

BNP Paribas Securities Services Fund Administration Limited
Secretary

Registered Office:
Liberté House
19-23 La Motte Street
St. Helier
Jersey
JE2 4SY
15 January 2010

Notes in respect of the Annual General Meeting

(i) A member entitled to attend and vote is entitled to appoint a proxy or proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company. A form of proxy is enclosed.

(ii) Instruments of proxy and the power of attorney or other authority, if any, under which they are signed or a notarially certified copy of that power of attorney or authority should be sent to The Registrars, Lloyds TSB Jersey (Services) Limited, 11-12 Esplanade, St. Helier, Jersey, JE4 8PH, so as to arrive not less than forty eight hours before the time fixed for the meeting.

(iii) In accordance with Article 40 of the Companies (Uncertificated Securities) (Jersey) Order 1999, to have the right to attend and vote at the meeting referred to above a member must first have his or her name entered in the Company's register of members by not later than forty eight hours before the time fixed for the meeting (or, in the event that the meeting be adjourned, on the register of members forty eight hours before the time of the adjourned meeting). Changes to entries on that register after that time (or, in the event that the meeting is adjourned, on the register of members less than forty eight hours before the time of any adjourned meeting) shall be disregarded in determining the rights of any member to attend and vote at the meeting referred to above.

(iv) No Director has a service contract with the Company.

(v) The Register of Directors' interests is kept by the Company and available for inspection at the registered office.

(vi) CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) thereof by utilising the procedures described in the CREST manual, which is available to download from the Euroclear website (www.euroclear.com/CREST). CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST manual. The message must be transmitted so as to be received by the Issuer's agent (ID 7RA01) by the latest time for receipt of proxy appointments specified in note (ii) above. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST applications host) from which the Issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5) of the Uncertificated Securities Regulations 2001.

Glossary of Terms

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Glossary of Terms

continued

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

Gilt
A bond issued by the British government.

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

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

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

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

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

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

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

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

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

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

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

Warning to Shareholders

Over recent months many companies have become aware that their shareholders have received unsolicited telephone 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 would make unsolicited telephone calls to shareholders and that any such calls would relate only to official documentation already circulated to shareholders and never in respect of investment 'advice'.

If you are in any doubt about the veracity of an unsolicited telephone call, please call either the Company Secretary or the Registrar at the numbers provided on page 47.

Investor Information

Financial calendar

Financial year end	31 October 2009
Annual General Meeting	24 February 2010
Shareholder Event (see below)	1 March 2010
4th Interim dividend 2009	31 December 2009
Ex dividend date	9 December 2009
Record date	11 December 2009
1st Interim dividend 2010	31 March 2010
2nd Interim dividend 2010	30 June 2010
3rd Interim dividend 2010	30 September 2010

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

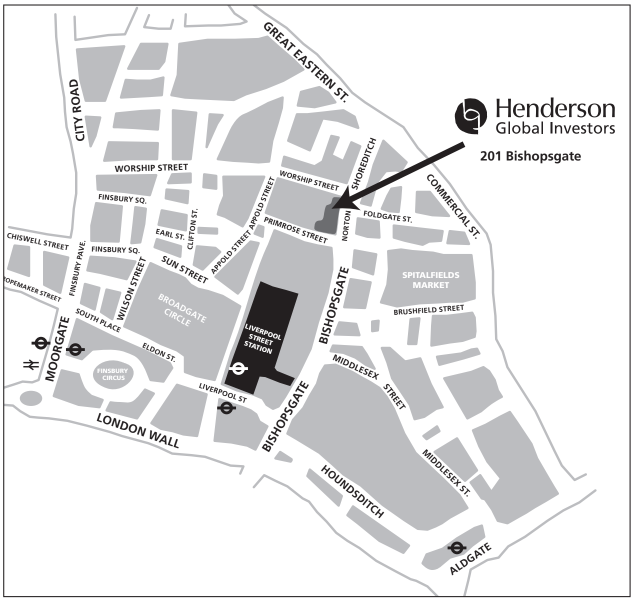
Shareholder Event

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

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

Henderson has therefore arranged a Shareholder Event to be held on Monday 1 March 2010 at 3pm. The event will provide the opportunity for the Portfolio Managers to give a presentation on the investment strategy and performance. The event will include light refreshments.

If you wish to attend, please return the yellow card which is enclosed with this Report. A map of the venue for the Shareholder Event is provided below:



■ Henderson Global Investors, 201 Bishopsgate, London EC2M 3AE

Quotation of shares

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

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

Website

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

Shareholder information

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

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

Nominee share code

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

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

Investor Information

continued

Directors
Paul Manduca (Chairman)
Helen Green
Nigel Parker
David Smith

Investment Manager
Henderson Global Investors Limited
represented by John Pattullo and Jenna Barnard
201 Bishopsgate, London EC2M 3AE

Henderson Global Investors Limited
is authorised and regulated by the Financial Services Authority
www.hendersondiversifiedincome.com

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

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Telephone: 01534 709108

Registered Number
Registered in Jersey, number 97669

Registered Auditor
Grant Thornton Limited
Kensington Chambers
46/50 Kensington Place
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Stockbrokers
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20 Moorgate
London
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Registrar
Lloyds TSB Jersey (Services) Limited
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The Company is a member of

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The Association of
Investment Companies

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Henderson Global Investors

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