Henderson Diversified Income Limited

Report and Financial Statements for the year ended 31 October 2010

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

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

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

Contents

Financial Highlights

	31 October 2010 £'000	**per share**	31 October 2009 £'000	per share
Net asset value	**69,483**	**83.1p**	62,236	74.4p
Market price	–	**79.3p**	–	69.5p

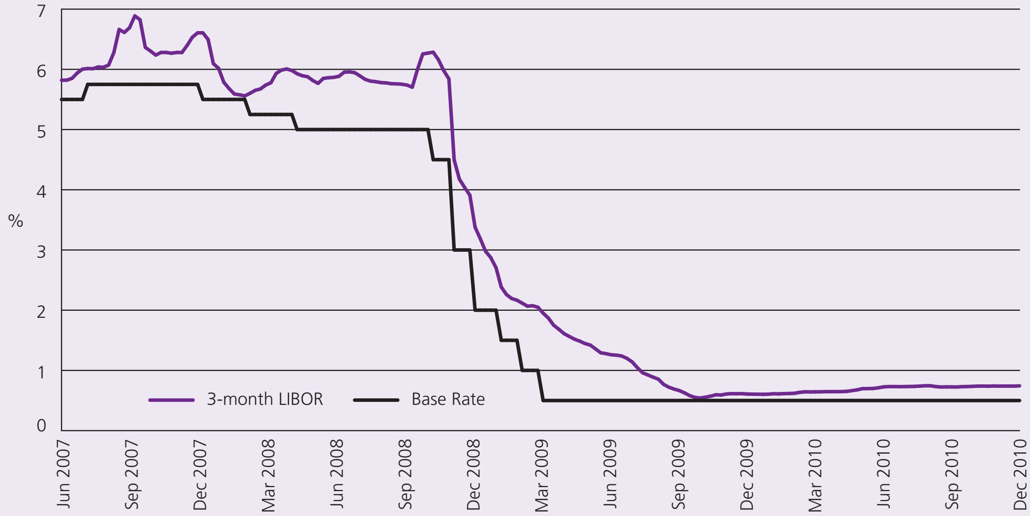
	Year ended 31 October 2010 £'000	**per share**	Year ended 31 October 2009 £'000	per share
Revenue earnings (based on weighted average number of shares)	**3,906**	**4.67p**	4,525	5.41p
Dividends (paid and payable)	**3,848**	**4.60p**	4,476	5.35p

Performance

	Year to 31 October 2010
Net asset value (total return)	**16.87%**
Share price (total return)	**19.39%**

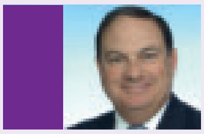
Source: Morningstar for the AIC

Movement in 3-month LIBOR and UK Base Rates (from launch to 31 December 2010)

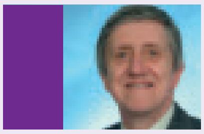


Source: Bloomberg

Directors


Paul Manduca


Helen Green


Nigel Parker


David Smith

***†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 is currently chairman of Aon UK Limited, Senior Independent Director of Wm Morrison Supermarkets plc and a director of the Prudential Group plc and JPMorgan European Smaller Companies 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.

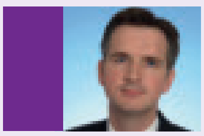
***Nigel Parker** has over 35 years' experience in the Jersey finance industry and in 2004 was appointed Chief Executive Officer of Gartmore Fund Managers International Limited. He has held a number of positions with Jersey trust companies but specialises in compliance and regulation. In 2002 he was 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 in Jersey in 1999 and subsequently took overall responsibility for all Dexia's operations in Jersey. Mr Smith is an Associate of the Chartered Institute of Bankers, a member of the Chartered Institute of Marketing and holds the Certificate in Company Direction.

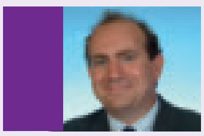
Mr Manduca chairs the Management Engagement Committee and Mrs Green chairs the Audit Committee. Mrs Green and Mr Parker are also directors of the Luxembourg subsidiary.

*Member of the Audit Committee
†Member of the Management Engagement Committee

Management

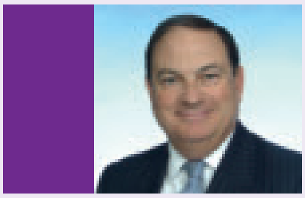

John Pattullo


Jenna Barnard


David Milward

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

Chairman's Statement



Paul Manduca

I am pleased to report that your Company's net asset value total return for the year was 16.9% and the share price total return was 19.4% reflecting a narrowing of the discount to 4.6% at the year end. Concern over sovereign debt in a number of countries, notably in the Eurozone, and the delay in introducing bailout packages has caused credit markets to be remarkably volatile. We rotated assets to rebuild par value from investment grade corporate bonds to high yield bonds and loans. In June, we took advantage of an unusual anomaly in the market, by investing in a small parcel of ordinary shares of large blue chip companies which were yielding more than their equivalent bonds. This has produced positive income and capital returns for us.

Performance

Your Company's net asset value increased from 74.4p to 83.1p over the year, having stood at 82.9p at 30 April 2010, reflecting a more testing second half to the year. The share price increased over the year from 69.5p to 79.3p. Group net revenue for the year fell from £4.525 million to £3.906 million indicating the lower level of LIBOR compared to the previous year.

Dividends and Dividend Policy

LIBOR rates have remained low throughout the year, rising only modestly from 0.59% in October 2009 to 0.74% a year later. Our income target remains at 1.25% over sterling three month LIBOR, equating to 1.99% at 31 October 2010. For the year under review four dividends each of 1.15p per share have been paid, making a total of 4.60p, which equates to a yield of 5.8% at the year end share price of 79.3p; comfortably beating the income target.

Gearing

At the year end borrowings were £6.2 million, down from £10.1 million at the previous year end meaning your Company was 8.9% geared compared to 16.2% at the prior year end. In addition, your portfolio was geared by a further 6.5% due to exposure to credit derivatives. Your Board reviews regularly the level of gearing.

Outlook

The outlook for markets remains uncertain but there is room for optimism. The mid cycle slow down is consistent with normal historical recovery cycles in equity markets and there are no indicators for a double dip in the economy. The default rate on the high yield bond market stands at a low and the outlook for loans is positive. Confidence is returning to the market with margins in new deals currently at around LIBOR plus 450/500bps. We remain convinced that LIBOR has bottomed and your Company is well placed to grow its dividend as and when LIBOR rises.

Annual General Meeting

Our fourth Annual General Meeting will be held on Tuesday 8 March 2011 at 11.00 am at our registered office, Liberté House, 19-23 La Motte Street, St.Helier, Jersey, JE2 4SY. Full details of the business of the meeting are set out in the separate Notice which has been sent out with this report. As in previous years an open presentation to shareholders, including the opportunity to meet the Portfolio Managers, will be held on Thursday 10 March 2011 at 2.30 pm at Henderson's offices in London.

Paul Manduca
Chairman
27 January 2011

Managers' Report

John Pattullo and Jenna Barnard

Market Overview

As we discussed in last year's report the rhythm of investing in fixed income markets involves a rotation of risks and opportunities in line with changes in the economic environment. In the year under review, the business cycle continued to favour lower quality, higher yielding corporate bonds and loans as the default rate backdrop remained very benign. In addition, we warned that disturbances from sovereign bond markets were likely and this has proved to be the case with concerns about the potential default risk of peripheral sovereign European nations punctuating markets throughout the year and resulting in considerable volatility. This volatility has been at times hard to navigate and we, as the management team, are pleased we have continued to re-build capital and maintained a healthy dividend flow.

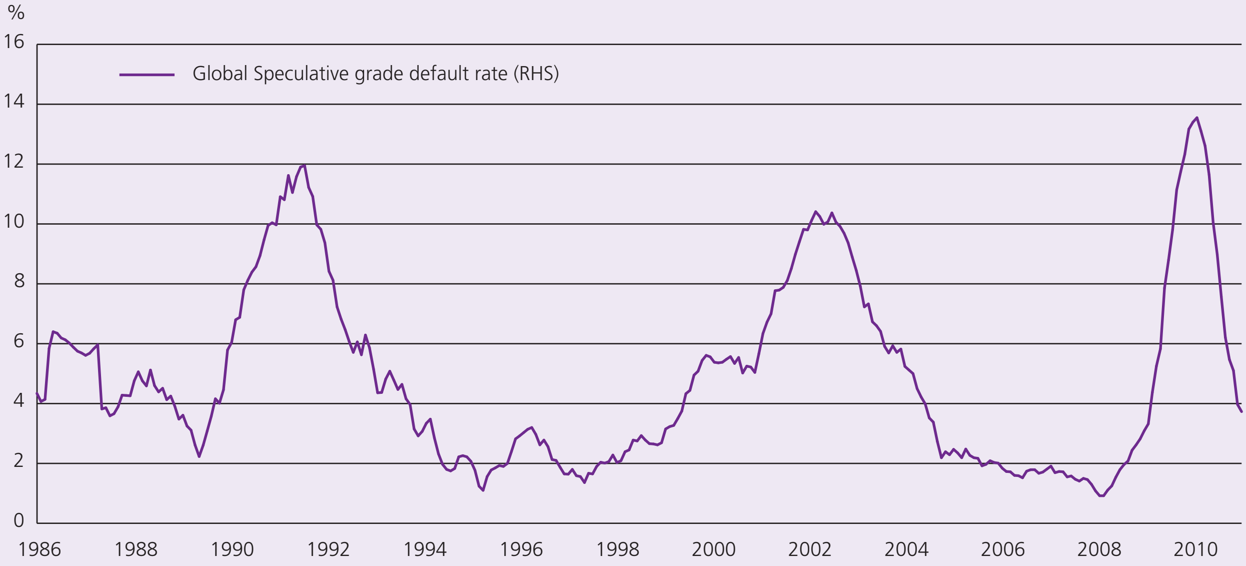
The theme of over-indebted sovereign nations came to a head firstly in Dubai in November 2009, where a frenzy of misallocated capital had caused an unsustainable property boom and bust, and then in Greece, initially in February 2010 but more specifically in mid April, when a crescendo of speculation over Greek solvency, and indeed financial credibility, led to complete risk aversion and a drying up of liquidity in bond markets. The €750m rescue package aimed to backstop Greek government finances for a number of years but despite the protestations from European politicians that this was a liquidity issue and not a solvency issue for Greece, markets remained sceptical and stock markets fell. The frustration with the European policy makers was with both their lack of speed in responding to the crises, and their lack of cohesion. In addition, the ECB has been loath to countenance Quantitative Easing ('QE') unlike the UK and American authorities. However, the market rallied in July after the majority of banks passed the European stress tests. Meanwhile, in mid summer fears of a "double dip" resurfaced in the US as a result of a lack of employment growth and the stagnant housing market. In response the Federal Reserve began to discuss the merits of a second round of quantitative easing to avoid the threat of deflation. Although welcome, in the short term this policy inevitably carries with it longer term risks in the form of inflation.

Turning now to structural themes in the bond market, the Company has been positioned to benefit from the trend towards financial re-regulation in the banking and insurance sectors. Specifically, the proposed Basel III regulation will change the make up of bank balance sheets ensuring a higher percentage of equity in the capital structure and lower proportion of hybrid debt. This means that existing hybrid debt instruments will become redundant over time increasing the likelihood that they will be redeemed early rather than run to perpetuity. We have therefore added subordinated banking bonds at below par prices to exploit this structural trend generally buying bonds between 60p and 90p in the pound to build in the potential for a capital uplift. Names added include some UK banks, such as RBS, Lloyds and the Co- operative Bank and UBS. The European insurance industry is also subject to much regulatory change and we have added to our holdings in Axa, Zurich, BUPA and Prudential, at between 85p and par. To finance these purchases, we sold a significant part of the higher interest rate sensitive, industrial investment grade names trading significantly above par such as British American Tobacco, Altria, Heineken, Carlsberg, Firstgroup and Group 4 Securities.

Elsewhere, we have switched out of higher priced investment grade bonds into high yield bonds, with new issues in this market enjoying coupons as high as 8% to 11%. These have tended to be in leveraged industrial businesses predominately operating in "core" Western Europe in packaging, distribution, retail and telecom/cable activities. Supporting this shift in the bond holdings is the default environment which has been remarkably favourable during the year under review. We expect global high yield default rates to be around 1% to 2% in 2011.

Managers' Report
continued

Default Rates



Source: Moody's, as at 30 November 2010

Our final strategic move was to take advantage of the weak equities markets in mid summer by adding a few high yield equities, Vodafone, National Grid, Scottish & Southern Energy and British American Tobacco, to the portfolio given that their ordinary shares were yielding more than their respective underlying corporate bonds and also offered the prospect for some capital growth. This was an opportune and somewhat unusual arbitrage, that has proved profitable.

Secured Loan Portfolio

European secured loan prices rallied strongly through the period as sentiment towards the asset class and credit in general remained positive. Over the period under review, the Credit Suisse European Leveraged Loan Index showed a positive return of 8.81%. The market rally has been supported by good technical drivers together with improving fundamentals.

Whilst the economic environment in Europe continues to be challenging we have seen increasing signs of improvement in the underlying credit quality of the market, particularly in the chemicals and industrial sectors as borrowers benefit from a significant step up in activity compared to the prior year. The improvement in credit quality and positive environment for credit is demonstrated by a dramatic decline in speculative grade default rates. The lagging October 12-month default rate fell to 2.9%, the lowest level in the last 22 months, compared to 10.5% at the end of 2009. (Source: LCD). The main rating agencies predict that 12-month speculative grade default rates will be below 1% at the end of 2010.

The improvement in the secondary market has resulted in the opening of the new issue market and the few deals that were launched during the period were launched with attractive (LIBOR plus 4/5%) coupons and conservative structures. Your Company invested in new transactions for Matalan (UK, Retail), RBS WorldPay (UK, Card Services) and Virgin Media (UK, Cable TV) at coupons ranging from LIBOR plus 375/500bps.

Our focus has been on improving performance by seeking out value opportunities in the secondary market based on relative yield to maturity. As a result we have sold a number of assets whose price had risen close to par and have reinvested the proceeds in alternative positions with greater potential for capital appreciation. Additions to the portfolio through the year include ProSieben (Germany, Communications), Nycomed (Denmark, Pharmaceuticals), ISS (Denmark, Business Services), Deutsch Connectors (Germany, Engineering) and Firth Rixson (UK, Engineering).

Managers' Report
continued

Outlook

We believe LIBOR has bottomed for this economic cycle and as interest rates rise the floating rate loans will begin to pay out higher coupons. This will occur with a lag as many companies have the option to set their interest payments over one to six month periods but unlike the vast majority of fixed income investment funds, we believe your Company is well positioned to benefit from future interest rate rises through rising income on these assets.

The key challenge for markets in the coming year is likely to remain European debt concerns. A number of peripheral European countries are simply carrying too much debt having inherited significant liabilities from their banking sectors (as in the case of Ireland) or having run extremely loose fiscal policies (as was the case in Greece). Consequently, we anticipate further pockets of volatility which should be contained by swift and sensible policy responses from the European authorities if they can rise above political and local concerns to achieve a positive Europe wide outcome.

John Pattullo and Jenna Barnard
Portfolio Managers
27 January 2011

Investment Portfolio

as at 31 October 2010

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
Gala Clubs	**£**	**UK**	**Leisure**	**1,842**	**2.42**
Kabel BW	**Euro**	**Germany**	**Broadcasting**	**1,710**	**2.24**
Bausch & Lomb	**Euro**	**USA**	**Healthcare**	**1,641**	**2.15**
ISS	**Euro**	**Denmark**	**Business services**	**1,636**	**2.15**
Infonxx	**Euro**	**USA**	**Business services**	**1,625**	**2.13**
XSYS Flint	**Euro**	**Germany**	**Chemicals, plastics & rubber**	**1,588**	**2.08**
ProSieben	**Euro**	**Germany**	**Communications**	**1,575**	**2.07**
Nycomed	**Euro**	**Denmark**	**Pharmaceuticals**	**1,535**	**2.01**
AZ Electronics	Euro	Luxembourg	Electronic materials	1,421	1.86
Weetabix	£	UK	Beverages, food & tobacco	1,397	1.83
TNT Logistics	US$	UK	Logistics	1,367	1.79
Amadeus	Euro	Spain	Business services	1,366	1.79
Stork	Euro	Netherlands	Engineering	1,245	1.63
Xerium	US$	USA	Paper & packaging	1,189	1.56
Firth Rixon	£	UK	Engineering	1,163	1.53
Vivarte	Euro	France	Retail	1,097	1.44
Pages Jaunes	Euro	France	Publishing	1,094	1.44
Linpac	Euro	UK	Packaging	1,087	1.43
Deutsch Connectors	US$	Germany	Engineering	1,070	1.40
Avio	US$	Italy	Aerospace	1,055	1.39
New Look	£	UK	Retail	960	1.26
Matalan	£	UK	Retail	956	1.26
Trader Media	£	UK	Publishing	914	1.20
Towergate	£	UK	Insurance	901	1.18
Alliance Boots	£	UK	Retail	900	1.18
House of Fraser	£	UK	Retail	882	1.16
Ineos	Euro	UK	Chemicals, plastics & rubber	821	1.08
AVR	Euro	Netherlands	Ecological	806	1.06
Macquarie	£	UK	Telecommunications	770	1.01
Materis	Euro	France	Building materials	713	0.94
Numericable	Euro	France	Broadcasting	710	0.93
RBS WorldPay	£	UK	Card services	700	0.92
Virgin Media	£	UK	Cable TV	694	0.91
VNU World Direct	Euro	Belgium	Publishing	601	0.79
Kwikfit	£	UK	Automotive	596	0.78
Springer	US$	Germany	Publishing	521	0.68
IMO	£	UK	Retail	448	0.59
Yell	£	UK	Publishing	383	0.50
La Seda De Barcelona	Euro	Spain	Chemicals, plastics & rubber	378	0.50
Total Secured Loans				**41,357**	**54.27**

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

Investment Portfolio

continued

High Yield Bonds

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

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

Investments by value	Currency	Country	Industry	Market value £'000	% of portfolio
Kabel Deutschland	Euro	Germany	Cable TV	1,232	1.62
Ziggo	Euro	Netherlands	Cable TV	1,113	1.46
Nordenia Holdings	Euro	Germany	Packaging & containers	813	1.07
Unity Media	Euro	Germany	Cable TV	790	1.04
Lloyds Banking Group	£	UK	Diversified banking	786	1.03
Bank of Scotland	£	UK	Diversified banking	762	1.00
UPC	Euro	Netherlands	Cable TV	699	0.92
ING Verzekeringen	Euro	Netherlands	Insurance	694	0.91
Wind Acquisition	Euro	Italy	Telecommunications	686	0.90
Bank of Ireland	£	Ireland	Diversified banking	667	0.87
Investec	£/Euro	UK	Diversified financial services	657	0.86
Digicel	US$	Caribbean	Telecommunications	510	0.67
ISS	Euro	Denmark	Business services	506	0.66
Virgin Media	£	UK	Cable TV	501	0.66
Daily Mail & General Trust	£	UK	Publishing	480	0.63
Angel Lux	Euro	Denmark	Telecommunications	441	0.58
Rexel	Euro	France	Electrical parts distribution	435	0.57
HBOS	£	UK	Diversified banking	395	0.52
Rhodia	Euro	France	Chemicals	387	0.51
Inaer Aviation	Euro	Spain	Aerospace	382	0.50
Interxion	Euro	Netherlands	IT services	369	0.48
New World Resources	Euro	Netherlands	Industrial	332	0.44
Sunrise Communications	Euro	Switzerland	Telecommunications	315	0.41
Ardagh Glass	Euro	Ireland	Packaging & containers	285	0.37
Dexia	Euro	Netherlands	Diversified banking	261	0.34
William Hill	£	UK	Gaming & betting	260	0.34
Conti Gummi	Euro	Germany	Automotive accessories	246	0.32
Picard Bondco	Euro	France	Food & beverages	227	0.30
Impress	Euro	Netherlands	Packaging & containers	225	0.30
Co-operative Bank	£	UK	Diversified banking	224	0.29
DFS Furniture	£	UK	Retail	205	0.27
National Westminster	£	UK	Diversified banking	187	0.25
IFCO Systems	Euro	Netherlands	Packaging & containers	173	0.23
Phoenix	Euro	Germany	Retail	71	0.09
F&C Asset Management	£	UK	Diversified financial services	49	0.06
Total High Yield Bonds				**16,365**	**21.47**

Investment Portfolio

continued

Investment Grade Bonds

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

Investments by value	Currency	Country	Industry	Market value £'000	% of portfolio
BNP Paribas	**£**	**France**	**Diversified banking**	**1,629**	**2.14**
Aviva	**£/Euro**	**UK**	**Insurance**	**1,511**	**1.98**
Barclays	£	UK	Diversified banking	1,306	1.71
Royal London	£	UK	Insurance	1,013	1.33
Standard Life	£/Euro	UK	Insurance	932	1.22
Royal & Sun Alliance	£	UK	Insurance	930	1.22
BUPA	£	UK	Insurance	838	1.10
Société Générale	£/Euro	France	Diversified banking	754	0.99
Legal & General	£	UK	Insurance	728	0.96
Axa	£	France	Insurance	723	0.95
Nationwide Building Society	£	UK	Diversified banking	637	0.84
Elm (Swiss Re.)	£	Switzerland	Insurance	544	0.71
Friends Provident	£	UK	Insurance	542	0.71
Royal Bank of Scotland	£	UK	Diversified banking	475	0.62
Scottish & Southern Energy	£	UK	Utilities	452	0.59
F&C	£	UK	Diversified financial services	397	0.52
Generali	£	Italy	Insurance	366	0.48
Zurich Financial Services	US$	Switzerland	Insurance	358	0.47
SwissRe Capital	US$	Switzerland	Insurance	311	0.41
ASR Nederland	Euro	Netherlands	Insurance	301	0.40
Standard Chartered Bank	£	UK	Diversified banking	280	0.37
Thames Water	£	UK	Utilities	168	0.22
Prudential	US$	UK	Insurance	111	0.14
Total Investment Grade Bonds				**15,306**	**20.08**

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

Investment Portfolio
continued

Equities

Investments by value	Currency	Country	Industry	Market value £'000	% of portfolio
Vodafone	£	UK	Telecommunications	679	0.89
Scottish & Southern Energy	£	UK	Utilities	461	0.61
Royal Dutch Shell	£	Netherlands	Oil & gas	460	0.60
National Grid	£	UK	Utilities	437	0.57
British American Tobacco	£	UK	Beverages, food & tobacco	416	0.55
GlaxoSmithKline	£	UK	Pharmaceuticals	403	0.53
La Seda de Barcelona	Euro	Spain	Chemicals, plastics & rubber	178	0.23
British Vita	Euro	UK	Chemicals, plastics & rubber	148	0.20
Total Equities				**3,182**	**4.18**
Total Investments				**76,210**	**100.00**

Those investments shown in **bold** are the ten largest investments which by value account for 21.37% of the total value of investments (2009: 21.84%).

Report of the Directors

The Directors present the audited financial statements of the Group and their report for the year ended 31 October 2010. 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 2010. It should be read in conjunction with the Chairman's Statement on page 3 and with the Managers' Report on pages 4 to 6 which give a detailed review of the investment activities for the year and an outlook for the future.

a) Status

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

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

The Company intends to continue to manage its affairs so that its shares fully qualify for inclusion in an ISA.

b) Investment objective and policy

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

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

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

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

c) Financial Review

Total net assets as at 31 October 2010 amounted to £69.483 million (2009: £62.236 million) and the net asset value per ordinary share was 83.1p (2009: 74.4p).

At 31 October 2010 there were 105 (2009: 94) separate investments, as detailed in the Investment Portfolio on pages 7 to 10. During the year, the Company invested in equities for the first time.

Group net revenue after taxation for the year was £3.906 million (year ended 31 October 2009: £4.525 million). The total expense ratio ('TER') is 1.71% (2009: 1.75%).

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. Three interim dividends, each of 1.15p have been paid, on 31 March, 30 June and 30 September 2010. A fourth interim dividend of 1.15p per share in respect of the period ended 31 October 2010 was paid on 31 December 2010. For the year under review the Company exceeded its target dividend yield of 1.25% over sterling three month LIBOR.

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 2010 the Group had drawn down £6.2 million (2009: £10.1 million). The facilities are subject to regular review. At 31 October 2010, the ratio of borrowings under the facilities to net assets was 8.9% (2009: 16.2%).

Payment of suppliers

It is the payment policy of the Company to obtain the best

Report of the Directors
continued

possible terms for all business and, therefore, there is no single policy as to the terms used. In general, the Company agrees with its suppliers the terms on which business will take place and it is the Company's policy to abide by such terms. There were no trade creditors as at 31 October 2010.

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 Managers' Report (on pages 4 to 6).

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

d) Performance measurement and key performance indicators

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

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

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

  The Company publishes a NAV per share figure on a daily basis through the official newswire of the London Stock Exchange. This figure is calculated in accordance with the AIC formula which includes current financial year revenue; the same basis as that calculated for the financial statements. The NAV excluding current financial year revenue is also published for historical cost comparison.

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

- *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. For the year under review, no performance fee is payable (2009: nil).

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.

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

f) Related party transaction

The contract with Henderson is the only related party transaction currently in place. Other than the fees payable in the ordinary course of business, there have been no material transactions with the related party which have affected the financial position or performance of the Company in the financial year.

Report of the Directors

continued

g) Principal risks and uncertainties

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

Investment Strategy

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

Market

Market risk arises from uncertainty about the future prices of the Company's investments. This is commented on in Note 14.1 on page 34.

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. Paragraph 9.8.6 of the UK Listing Rules requires all listed companies to disclose how they have applied the principles and complied 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 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 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 2008 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

Report of the Directors

continued

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

In May 2010 the FRC published the new UK Corporate Governance Code which is effective for accounting periods commencing on or after 29 June 2010. On 15 October 2010 the AIC published its updated code. The Company will report against those codes in the 2011 Annual Report.

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 2008 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 Smith offers himself 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 currently independent of the Company's Manager and the Company's Administrator. However, on 12 January 2011, Henderson announced its agreed offer for the acquisition of Gartmore Group Limited. Mr Parker will cease to be independent of the Company's Manager once that deal becomes unconditional.

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 in shares

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

Ordinary Shares of no par value	**31 October 2010**	1 November 2009
Paul Manduca (Chairman)	**125,000**	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.

Report of the Directors
continued

Directors' professional development
When a new Director is appointed, he or she will be offered a directors' introductory programme to be held by the Manager. Directors are also provided, on a regular basis, with key information on the Company's policies, regulatory and statutory requirements and internal controls. Changes in directors' responsibilities are advised to the Board as they arise. Directors also regularly participate in relevant training and industry seminars.

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 and Administrator also ensure 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 Group by reviewing and challenging, where necessary, the actions and judgments of the Manager and the Administrator;
- to meet, if required, with the Company's auditors to review their proposed audit programme of work and the findings of its auditors (the Audit Committee also uses this as an opportunity to assess the effectiveness of the audit process);
- to make recommendations to the Board in relation to the appointment of the Company's auditors and to approve the remuneration and terms of engagement of the Company's auditors; 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.

Report of the Directors
continued

b) Management Engagement Committee
The Management Engagement Committee 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. Mr Parker was a member of the Committee throughout the year under review but resigned on 18 January 2011.

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	4	2	1

In addition, a number of short Board Meetings were held during the year to approve dividends, release Interim Management Statements and to attend to pressing matters and the Annual General Meeting was held in February 2010.

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

f) Internal controls
The Board has established a process for identifying, evaluating and managing any major risks faced by the Company. 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 and Administrator a formal report which details the steps taken to monitor the areas of risk, including those that are not directly the responsibility of those parties, 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. The Board has reviewed the effectiveness of the Company's system of internal controls for the year ended 31 October 2010 and to the date of approval of this Annual Report and Financial Statements. The Board confirms that it has not identified, or been advised of, any failings or weaknesses that have been determined as significant.

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.

g) Accountability and relationship with the Manager and the Administrator
The Statement of Directors' Responsibilities in respect of the Group's financial statements is set out on page 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.

Report of the Directors

continued

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 2010, 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

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 44.

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 Thursday 10 March 2011. Full details are set out on page 43. This will give shareholders the opportunity to meet the Chairman and to address questions to the Managers who, as the representatives of the Manager, will make a presentation to shareholders.

Report of the Directors

continued

j) Corporate Responsibility

- *Responsible investment*

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

  The way companies respond to sustainability and corporate responsibility can affect their business performance, both directly and indirectly. An investee company's policy on social responsibility and the environment is therefore considered as part of the investment risk decision.

- *Voting policy*

  Henderson's Responsible Investment Policy sets out the Manager's approach to corporate governance and corporate responsibility for all the companies in which it invests on behalf of its clients, and its policy on proxy voting. The Policy also sets out how Henderson implements the Stewardship Code. The Company has delegated responsibility for voting to the Manager. The Board will receive a report, at least annually, on the voting undertaken by the Manager on behalf of the Company.

  The Board and Henderson believe that voting at general meetings is an important aspect of corporate stewardship and a means of signalling shareholder views on board policy, practices and performance. Voting recommendations are guided by the best interests of the investee companies' shareholders. Depending on the nature of the resolution, the Portfolio Manager and/or members of the Board will give specific instructions on voting non-routine and unusual or controversial resolutions. Decisions not to support resolutions and the rationale therefor are fed back to the investee company prior to voting.

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

- *Employee and Environmental matters*

  The Company's core activities are undertaken by Henderson, which has implemented environmental management practices, including systems to limit the use of non-renewable resources and to minimise the impact of operations on the environment, and is focused on reducing greenhouse gas emissions and minimising waste, where possible.

Annual General Meeting ('AGM')

The AGM will be held in Jersey on Tuesday 8 March 2011 at 11.00 am. The Notice of Meeting is contained in a separate document which was sent to shareholders with the Annual Report.

Discount Management

The Directors intend to operate an active discount management policy through the use of share buy backs, if the shares were ever to trade at a substantial discount to net asset value for a significant period. The Directors seek annual authority to buy back and cancel, or hold in Treasury, the Company's shares. On 24 February 2010 the Directors were granted authority to repurchase 12,537,767 shares for cancellation. This authority, which has not been used, will expire at the forthcoming AGM. In Resolution 5, a Special Resolution, the Board is seeking authority to purchase up to a maximum of 14.99% of the shares in issue.

These powers will give the Directors additional flexibility going forward and the Board considers that it will be in the interests of the Company that such powers be available.

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 shares without pre-emption rights applying for shareholders. Shares will only be issued at a premium to the prevailing net asset value per share and, therefore, will not be disadvantageous to existing shareholders. Any future issues of 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.

Amendments to Articles

The Company currently has a listing on the premium segment of the official list of the UK Listing Authority. From 6 April 2010, the structure of the UK listing regime changed primarily as a result of the evolution of UK and global markets but also to reduce the potential for confusion over the current regime. The Financial Services Authority (FSA) is replacing primary and secondary listing with premium and standard listing. All closed ended investment funds will be required to have a premium listing.

Report of the Directors

continued

The FSA is also taking the opportunity to bring the requirements for overseas companies in relation to corporate governance and pre-emption rights into line with those for UK companies. Although at present, as an overseas company with a premium listing, the Company is generally subject to the same regulatory requirements as a UK company, it previously benefited from less onerous requirements in relation to corporate governance. In addition, as a Jersey incorporated entity, it is not subject to pre-emption rights under Jersey law nor under its articles of association. From April 2010, all overseas companies with a premium listing are required to:

- Include in their annual report and financial statements an amended corporate governance statement, confirming compliance with the UK Corporate Governance Code or explaining any aspect of non-compliance (rather than stating whether they comply with the corporate governance regime in their home state and describing how their actual practices differ from the UK Corporate Governance Code); and
- Offer pre-emption rights to their existing shareholders when they make an offer of new shares for cash (with a 13 month period to implement).

In light of the new requirements to offer pre-emption rights to shareholders, your Board is taking the opportunity to amend the Company's Articles of Association ('Articles') at the Annual General Meeting to incorporate the necessary changes.

The new provision requires the Company, unless previously disapplied by a special resolution (which will require three quarters rather than two thirds of shareholders voting to vote in favour), to first offer any new shares or securities (or rights to subscribe for, or to convert or exchange into, shares) proposed to be issued for cash to shareholders in proportion to their holdings in the Company.

The pre-emption provisions proposed in the Articles are designed to follow, in so far as possible, those which exist in relation to companies incorporated in the United Kingdom and governed by the United Kingdom Companies Act 2006. The special resolution which has been proposed to disapply pre-emption rights requires three quarters of shareholders to vote in favour of it rather than two thirds in order to follow the United Kingdom position.

In addition to including pre-emption provisions the proposed changes to the Articles are:

- Reduce the notice period for annual general meetings and meetings at which special resolutions are proposed from 21 to 14 days; and
- Remove the upper age limit for directors in order to seek to comply with relevant United Kingdom laws in relation to age discrimination.

A blacklined copy of the Articles showing the proposed amendments is available from the Company Secretary at the registered office address.

The adoption of new Articles has been notified to the Jersey Financial Services Commission. The Company is currently authorised by the Articles to issue an unlimited number of new shares. In order to continue with such share issues, your Board is therefore also proposing that an annual disapplication of the new pre-emption rights is given to the Directors so that they may continue to issue shares as and when appropriate. Accordingly, a Special Resolution requiring three quarters of shareholders voting to vote in favour, proposes a disapplication of the new pre-emption rights in respect of 10% of the shares in issue, set to expire on the earlier of eighteen months from the date of the resolution or at the conclusion of the Annual General Meeting to be held in 2012. It is proposed that this disapplication will be proposed for renewal annually together with the power to issue new shares.

Independent Auditors

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

Directors' Statement as to Disclosure of Information to Auditors

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

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

For and on behalf of the Board

Helen Green
Director
27 January 2011

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

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

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

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

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

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

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

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

For and on behalf of the Board

Helen Green
Director
27 January 2011

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 year under review and in the previous year, 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 during 2009, were as follows:

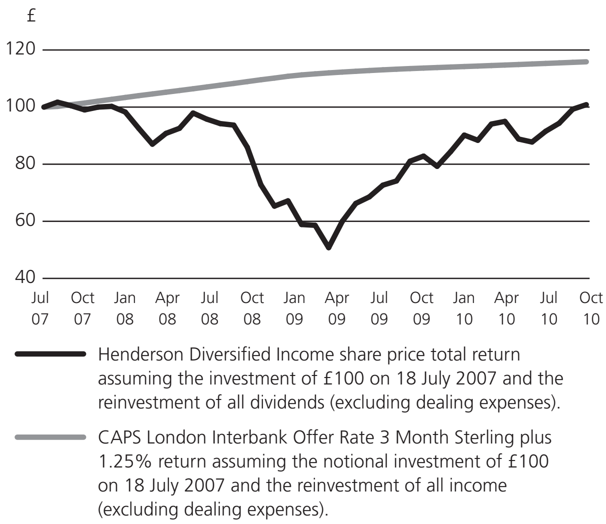
	2010 £	2009 £
Paul Manduca (Chairman and highest paid director)	**30,000**	30,000
Helen Green	**22,000**	22,000
Nigel Parker	**17,500**	17,500
David Smith	**17,500**	17,500
Total	**87,000**	87,000

Mrs Green and Mr Parker also receive £5,000 fees (2009: £5,000) as Directors of the Luxembourg subsidiary. 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 2010.

Share price performance graph



Sources: IMSE

For and on behalf of the Board

Helen Green
Director
27 January 2011

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

We have audited the Group financial statements of Henderson Diversified Income Limited for the year ended 31 October 2010 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement and the related notes 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 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 affairs as at 31 October 2010 and of the Group'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.

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

27 January 2011

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

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

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

Consolidated Statement of Comprehensive Income

for the year ended 31 October 2010

Notes		Year ended 31 October 2010 Revenue return £'000	Year ended 31 October 2010 Capital return £'000	Year ended 31 October 2010 Total £'000	Year ended 31 October 2009 Revenue return £'000	Year ended 31 October 2009 Capital return £'000	Year ended 31 October 2009 Total £'000
11(b)	Gains on investments at fair value through profit or loss	–	**6,840**	**6,840**	–	16,661	16,661
	Gains/(losses) on foreign exchange transactions at fair value through profit or loss	–	**793**	**793**	–	(4,226)	(4,226)
3	Investment income	**4,854**	–	**4,854**	5,381	–	5,381
4	Other income	**4**	–	**4**	26	–	26
	Total income	**4,858**	**7,633**	**12,491**	5,407	12,435	17,842
	Expenses						
5	Management fee	**(281)**	**(281)**	**(562)**	(215)	(216)	(431)
6	Other expenses	**(562)**	–	**(562)**	(560)	–	(560)
	Profit before finance costs and taxation	**4,015**	**7,352**	**11,367**	4,632	12,219	16,851
7	Finance costs	**(109)**	**(109)**	**(218)**	(107)	(106)	(213)
	Profit before taxation	**3,906**	**7,243**	**11,149**	4,525	12,113	16,638
8	Taxation	–	–	–	–	–	–
	Profit for the year	**3,906**	**7,243**	**11,149**	4,525	12,113	16,638
9	**Earnings per ordinary share**	**4.67p**	**8.66p**	**13.33p**	5.41p	14.48p	19.89p

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

All items in the above statement derive from continuing operations.

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

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

The net profit of the Company for the year was £11,149,000 (2009: £16,638,000).

The notes on pages 27 to 40 form an integral part of these financial statements

Consolidated Statement of Changes in Equity

for the year ended 31 October 2010

Notes	**Consolidated year ended 31 October 2010**	**Stated capital £'000**	**Distributable reserve £'000**	**Other capital reserves £'000**	**Revenue reserve £'000**	**Total £'000**
	Total equity at 31 October 2009	**37,677**	**39,832**	**(16,414)**	**1,141**	**62,236**
	Total comprehensive income:					
	Profit for the year	–	–	**7,243**	**3,906**	**11,149**
	Transactions with owners, recorded directly to equity:					
10	**Dividends paid**	–	–	–	**(3,932)**	**(3,932)**
	Write back of issue costs	–	**30**	–	–	**30**
	Total equity at 31 October 2010	**37,677**	**39,862**	**(9,171)**	**1,115**	**69,483**

Notes	Consolidated year ended 31 October 2009	Stated capital £'000	Distributable reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
	Total equity at 31 October 2008	37,677	39,832	(28,527)	1,718	50,700
	Total comprehensive income:					
	Profit for the year	–	–	12,113	4,525	16,638
	Transactions with owners, recorded directly to equity:					
10	Dividends paid	–	–	–	(5,102)	(5,102)
	Total equity at 31 October 2009	37,677	39,832	(16,414)	1,141	62,236

The notes on pages 27 to 40 form an integral part of these financial statements

Consolidated Balance Sheet

at 31 October 2010

Notes		**Consolidated 2010 £'000**	Consolidated 2009 £'000
	Non current assets		
11(a)	Investments designated as fair value through profit or loss	**76,210**	69,537
	Current assets		
12	Other receivables	**4,329**	4,489
	Cash and cash equivalents	**806**	492
		5,135	4,981
	Total assets	**81,345**	74,518
	Current liabilities		
13	Other payables	**(11,862)**	(12,282)
	Net assets	**69,483**	62,236
	Equity attributable to equity shareholders		
15	Stated capital	**37,677**	37,677
16	Distributable reserve	**39,862**	39,832
	Retained earnings:		
17	Other capital reserves	**(9,171)**	(16,414)
	Revenue reserve	**1,115**	1,141
	Total equity	**69,483**	62,236
18	**Net asset value per ordinary share**	**83.1p**	74.4p

The financial statements were approved by the Board of Directors and authorised for issue on 27 January 2011 and were signed on its behalf by:

Helen Foster Green
Director

Nigel Robert Parker
Director

The notes on pages 27 to 40 form an integral part of these financial statements

Consolidated Cash Flow Statement

for the year ended 31 October 2010

	Consolidated 2010 £'000	Consolidated 2009 £'000
Net profit before taxation	**11,149**	16,638
Add back interest paid	**218**	213
Less: gains on investments designated as fair value through profit or loss	**(7,633)**	(12,435)
Less: exchange movements on forward exchange contracts taken to revenue	**–**	(12)
Decrease/(increase) in prepayments and accrued income	**84**	(61)
Decrease in other receivables	**1**	143
Increase/(decrease) in other payables	**263**	(167)
Net sales of investments	**867**	4,468
(Increase)/decrease in sales settlement debtor	**(699)**	946
Increase/(decrease) in purchase settlement creditor	**3,209**	(770)
Net cash inflow from operating activities before finance costs	**7,459**	8,963
Interest paid	**(218)**	(213)
Taxation on investment income	**(28)**	(12)
Net cash inflow from operating activities	**7,213**	8,738
Financing activities		
Equity dividends paid	**(3,932)**	(5,102)
(Repayment)/drawdown of loan	**(3,852)**	2,322
Net cash outflow from financing	**(7,784)**	(2,780)
(Decrease)/increase in cash and cash equivalents	**(571)**	5,958
Cash and cash equivalents at the start of the year	**492**	947
Exchange movements	**885**	(6,413)
Cash and cash equivalents at the year end	**806**	492

The notes on pages 27 to 40 form an integral part of these financial statements

Notes to the Financial Statements

1 General information

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

The Company was incorporated on 5 June 2007.

2 Accounting policies

a Basis of preparation

This consolidated financial information for the year ended 31 October 2010 has been prepared in accordance with International Financial Reporting Standards ('IFRS'). These comprise standards and interpretations approved by the International Accounting Standards Board ('IASB'), together with interpretations of the International Accounting Standards and Standing Interpretations Committee approved by the International Accounting Standards Committee ('IASC') that remain in effect, to the extent that IFRS have been adopted by the European Union ('EU').

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

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

Standards, amendments and interpretations that became effective in the current financial year that have been adopted by the Group:

- IAS 1 (revised) *Presentation of financial statements*:

The revised standard requires the separate presentation of changes in equity attributable to the owners (equity shareholders) and other non-owner changes. All non-owner changes in equity are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). The Group has applied IAS 1 (revised) from 1 November 2009 and has elected to present solely a statement of comprehensive income. Where an entity restates or reclassifies comparative information, it is also required to present a restated balance sheet as at the beginning of the comparative period. The adoption of this revised standard has not resulted in a significant change to the presentation of the Group's performance statement, as the Group has no elements of other comprehensive income not previously included in its Statement of Comprehensive Income.

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

- IAS 24 (revised) *Related Party Disclosures* (effective for financial periods beginning on or after 1 January 2011, subject to EU endorsement) revises the definition of related parties. Adoption is unlikely to have a significant effect on the Group's financial statements.

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's financial statements.

Notes to the Financial Statements

continued

2 Accounting policies (continued)

b Basis of consolidation

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

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

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

c Investments designated as fair value through profit or loss

All loans, bonds and equities are designated as held at fair value through profit or loss. 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 profit or loss as 'Gains or losses on investments at fair value through profit or loss'. Also included within this caption are transaction costs in relation to the purchase or sale of investments, including the difference between the purchase price of an investment and its bid price at the date of purchase.

d Income

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

e Expenses

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

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.

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.

Notes to the Financial Statements
continued

2 Accounting policies (continued)

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 Statement of Comprehensive Income 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 Group may enter into include forward foreign exchange contracts (the purpose of which is to manage currency risk arising from the Group's investing activities) and interest rate futures and swaps (the purpose of which is to take a position in relation to government bond yields). The Group may also use credit derivatives, for example buying or selling protection on credit default swaps in order to manage credit risk.

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

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

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

3 Investment income

	2010 £'000	2009 £'000
Income from investments:		
UK dividend income	**22**	–
Bond and loan interest	**4,470**	5,193
Premiums on credit default swaps	**362**	188
	4,854	5,381

Notes to the Financial Statements

continued

4	**Other income**	**2010 £'000**	2009 £'000
	Bank and other interest	**4**	14
	Interest income from forward exchange contracts	**–**	12
		4	26

5	**Management fee**	**Year ended 31 October 2010 Revenue return £'000**	**Capital return £'000**	**Total £'000**	Year ended 31 October 2009 Revenue return £'000	Capital return £'000	Total £'000
	Investment management fee	**281**	**281**	**562**	215	216	431

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

No performance fee was paid for the year (2009: £nil).

6	**Other expenses**	**2010 £'000**	2009 £'000
	Directors' fees† (see the Directors' Remuneration Report on page 21)	**97**	97
	Auditors' remuneration (including £7,000 (2009: £8,000) relating to the subsidiary):		
	– statutory audit	**39**	33
	– tax services for the subsidiary	**5**	5
	Bank and custody charges	**102**	133
	Administration and Company Secretarial services	**193**	197
	Registrar's fees	**17**	23
	Stock exchange fees	**18**	15
	Printing and stationery	**14**	12
	Other expenses	**77**	45
		562	560

†Includes £10,000 (2009: £9,000) paid to the directors of the Luxembourg subsidiary.

7	**Finance costs**	**Year ended 31 October 2010 Revenue return £'000**	**Capital return £'000**	**Total £'000**	Year ended 31 October 2009 Revenue return £'000	Capital return £'000	Total £'000
		109	**109**	**218**	107	106	213

Notes to the Financial Statements
continued

8	**Taxation**	**Year ended 31 October 2010** Revenue return £'000	Capital return £'000	Total £'000	Year ended 31 October 2009 Revenue return £'000	Capital return £'000	Total £'000
	The taxation charge for the period is comprised of the following:						
	Foreign withholding tax suffered	**28**	–	**28**	24	–	24
	Less: foreign tax recoverable	**(28)**	–	**(28)**	(24)	–	(24)
		–	–	–	–	–	–

Under Jersey law the Group is exempt from tax.

9 Earnings per ordinary share

The earnings per ordinary share figure is based on the net profit for the year after taxation of £11.149 million (year ended 31 October 2009: £16.638 million) and on 83,640,877 (2009: 83,640,877) being the weighted average number of ordinary shares in issue during the year.

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

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

	2010 £'000	2009 £'000
Net revenue earnings	**3,906**	4,525
Net capital earnings	**7,243**	12,113
Net total earnings	**11,149**	16,638
Weighted average number of ordinary shares in issue during the period	**83,640,877**	83,640,877

	2010	2009
Revenue earnings per ordinary share	**4.67p**	5.41p
Capital earnings per ordinary share	**8.66p**	14.48p
Total earnings per ordinary share	**13.33p**	19.89p

Notes to the Financial Statements

continued

10	**Dividends**	Record Date	Pay Date	**2010 £'000**	2009 £'000
	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
	Fourth interim dividend – 1.25p	11 December 2009	31 December 2009	**1,046**	–
	First interim dividend – 1.15p	12 March 2010	31 March 2010	**962**	–
	Second interim dividend – 1.15p	11 June 2010	30 June 2010	**962**	–
	Third interim dividend – 1.15p	10 September 2010	30 September 2010	**962**	–
				3,932	5,102

The fourth interim dividend has not been included as a liability in these financial statements as it was announced and paid after 31 October 2010.

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 £3.906 million (2009: £4.525 million).

	2010 £'000
First interim dividend for 2010 – 1.15p	**962**
Second interim dividend for 2010 – 1.15p	**962**
Third interim dividend for 2010 – 1.15p	**962**
Fourth interim dividend for 2010 – 1.15p (paid 31 December 2010)	**962**
	3,848

11(a)	**Investments designated as fair value through profit or loss**	**Listed Investments £'000**	**Unlisted Investments £'000**	**Total £'000**
	Cost at 31 October 2009	**29,264**	**36,912**	**66,176**
	Investment holding gains/(losses) at 31 October 2009	**3,910**	**(549)**	**3,361**
	Valuation at 31 October 2009	**33,174**	**36,363**	**69,537**
	Movements in the period:			
	Purchases at cost	**25,185**	**15,501**	**40,686**
	Sales – proceeds	**(26,633)**	**(14,298)**	**(40,931)**
	– realised gains on sales of investments designated as fair value through profit or loss	**2,496**	**242**	**2,738**
	Movement in investment holding gains	**631**	**3,549**	**4,180**
	Closing valuation at 31 October 2010	**34,853**	**41,357**	**76,210**

Notes to the Financial Statements

continued

11	**Investments designated as fair value through profit or loss** (continued)	**2010 £'000**	2009 £'000
	(b) Gains on investments at fair value through profit or loss		
	Realised gains/(losses) on sales of investments at fair value through profit or loss	**2,738**	(7,516)
	Movement in investment holdings gains at fair value through profit or loss	**4,180**	23,989
	Gains/(losses) on future contracts held at fair value through profit or loss	**10**	(164)
	(Losses)/gains on credit default swaps held at fair value through profit or loss	**(88)**	352
		6,840	16,661

(c) Transaction costs

During the year expenses amounting to £16,000 (year to 31 October 2009: £2,000) 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 at fair value through profit or loss in the Consolidated Statement of Comprehensive Income.

(d) Subsidiary undertaking

The Company has an investment in the issued share capital in its wholly owned limited liability subsidiary undertaking, Henderson Diversified Income (Luxembourg) s.à.r.l.. This is a limited liability company, registered under the laws of the Grand Duchy of Luxembourg and was incorporated on 1 August 2007. In addition, the Company has made a loan to the subsidiary undertaking of £47.408 million (2009: £50.677 million). After providing for the net deficit in the subsidiary of £9.297 million (2009: £13.886 million) the loan has been written down to £38.111 million (2009: £36.791 million).

The subsidiary is valued at cost less impairment.

12	**Other receivables**	**2010 £'000**	2009 £'000
	Amounts due from brokers	**2,038**	1,339
	Prepayments and accrued income	**1,069**	1,153
	Withholding tax recoverable	**90**	62
	Credit default swaps held at fair value through profit or loss	**572**	1,282
	Forward exchange contracts held at fair value through profit or loss	**560**	652
	Other receivables	–	1
		4,329	4,489

Notes to the Financial Statements
continued

13 Other payables	2010 £'000	2009 £'000
Amounts due to brokers	**5,104**	1,895
Bank loan	**6,211**	10,063
Taxation payable	**26**	26
Future contracts held at fair value through profit or loss	–	10
Other payables	**521**	288
	11,862	12,282

14 Risk Management policies and procedures

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

These risks, market risk (comprising currency risk, interest rate risk and other price risk), liquidity risk and credit risk, and the Directors' approach to the management of them, are set out below. The Company Secretary, in close co-operation with the Board of Directors and the Manager, (Henderson Global Investors Limited) co-ordinates the Group's risk management. The objectives, policies and processes for managing the risks, 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 Manager assesses the exposure to market risk when making each investment decision, and monitors the overall level of market risk on the whole of the investment portfolio on an ongoing basis.

14.2 Currency risk

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

Management of the risk

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

Notes to the Financial Statements
continued

14 Risk Management policies and procedures (continued)

14.2 Currency risk (continued)

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.

	2010		2009	
	US$ £'000	**Euro £'000**	US$ £'000	Euro £'000
Investments at fair value through profit or loss that are monetary items	**6,321**	**37,191**	8,956	29,452
Receivables (due from brokers, dividends and other income receivable)	**1,389**	**909**	131	1,683
Cash at bank and on deposit	**67**	**320**	32	87
Payables (due to brokers, accruals and other creditors)	**(35)**	**(2,345)**	–	(1,034)
Borrowings under multi currency loan facility	–	–	–	(448)
Forward currency sales	**(7,746)**	**(36,371)**	(9,063)	(31,495)
Credit default swaps	**76**	**496**	32	1,250
Futures contracts	–	–	37	615
Total net foreign exposure	**72**	**200**	125	110

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 futures in place at 31 October 2010 of £nil (2009: £2.252 million).

Notes to the Financial Statements

continued

14 Risk Management policies and procedures (continued)

14.3 Interest rate risk (continued)

Interest rate exposure

The exposure at 31 October 2010 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

	2010 Within one year £'000	**2010** One to five years £'000	**2010** More than five years £'000	**2010** Total £'000	2009 Within one year £'000	2009 One to five years £'000	2009 More than five years £'000	2009 Total £'000
Exposure to floating interest rates:								
Investments held at fair value through profit or loss	**48,626**	–	–	**48,626**	42,257	–	–	42,257
Cash at bank	**806**	–	–	**806**	492	–	–	492
Bank loan	**(6,211)**	–	–	**(6,211)**	(10,063)	–	–	(10,063)
	43,221	–	–	**43,221**	32,686	–	–	32,686
Exposure to fixed interest rates:								
Investments held at fair value through profit or loss	–	**2,134**	**22,268**	**24,402**	–	4,143	23,137	27,280
Total exposure to interest rates	**43,221**	**2,134**	**22,268**	**67,623**	32,686	4,143	23,137	59,966

At 31 October 2010, the Group had gross nominal exposure to interest rate futures to the value of £nil (2009: £2.252 million).

The interest rate futures used during the year under review were short risk positions in the gilt (UK government bond) 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 4.3% (2009: 5.2%)

Interest rate sensitivity

The Group's portfolio (excluding equities) at 31 October 2010 was valued at £73.028 million (2009: £69.537 million) and it has a modified duration (interest rate sensitivity) of approximately 2.2 years (2009: 2.4 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 £1.607 million (2009: £1.669 million) all other factors being equal.

14.4 Other price risk

In addition to foreign currency and interest rate risk, the Group is also exposed to other price risk due to short term market price changes and default risk. A 10% increase or decrease in market prices would increase or decrease net profit after tax and shareholders' funds by £7.564 million (2009: £6.902 million) (equivalent to an increase or decrease in net asset value per share of 10.9% (2009: 11.1%)).

Notes to the Financial Statements

continued

14 Risk Management policies and procedures (continued)

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 (2009: £15.5 million), of which £6.211 million was drawn down at 31 October 2010 (2009: £10.063 million). This facility is subject to regular review and unless renewed will expire on 1 November 2011.

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

Liquidity risk exposure

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

	At 31 October 2010		At 31 October 2009	
	3 months or less £'000	**Total £'000**	3 months or less £'000	Total £'000
Current liabilities				
Unrealised loss on future contracts	–	–	10	10
Amounts due to brokers, accruals and tax payable	**5,651**	**5,651**	2,208	2,208
Bank loans	**6,217**	**6,217**	10,073	10,073
	11,868	**11,868**	12,291	12,291

The Group also has exposure of £5.044 million (2009: £10.692 million) in respect of credit default swaps where protection has been sold.

Notes to the Financial Statements

continued

14 Risk Management policies and procedures (continued)

14.6 Credit risk

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

Management of the risk

The risk is significant, and is managed as follows:

– where the Investment Manager makes an investment in a bond, corporate or otherwise, the credit rating of the issuer is taken into account so as to determine the risk to the Group of default.

– investments in bonds and loans are made across a variety of industry sectors and geographical markets, so as to avoid concentrations of credit risk. At 31 October 2010 investments totalling £0.601 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.

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 2010, the gross exposure to single name credit default swaps and ITRAXX indices was £2.399 million and £2.645 million respectively (2009: £3.642 million and £7.050 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 2010 the gross exposure was £nil (2009: £nil).

14.7 Fair values of financial assets and financial liabilities

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

Current assets and current liabilities: forward currency sales are valued on the basis of exchange rates for a similar contract for the same residual duration, as provided by the counterparty. The amount of change in fair value for such forward exchange contracts recognised in the Consolidated Statement of Comprehensive Income for the period was a gain of £0.768 million (2009: loss of £3.534 million). The forward currency transactions serve to hedge back the value of Euro and US Dollar denominated securities to sterling.

Credit default swaps are fair valued. The amount of change in fair value recognised in the Consolidated Statement of Comprehensive Income for the period for credit default swaps was a gain of £0.499 million (2009: gain of £0.902 million).

Notes to the Financial Statements

continued

14 Risk Management policies and procedures (continued)

14.8 Fair value hierarchy disclosures

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

Financial assets at fair value through profit or loss at 31 October 2010	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investments	**34,853**	**41,357**	–	**76,210**
Credit default swaps	–	**572**	–	**572**
Forward exchange contracts	–	**560**	–	**560**
	34,853	**42,489**	–	**77,342**

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

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

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

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

The valuation techniques used by the Company are explained in the accounting policies note on page 28.

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

14.9 Capital management policies and procedures

The Group's capital management objectives are:

- to ensure that it will be able to continue as a going concern, and
- to maximise the income and capital return to its equity shareholders

through an appropriate balance of equity capital and debt.

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

The Group had borrowings totalling £6.211 million at 31 October 2010 (2009: £10.063 million).

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

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

The Group is subject to the following externally imposed capital requirement:

- Under the multi currency facility, 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

continued

15	Stated capital	Stated Capital £'000	Number of fully paid shares issued
	As at 31 October 2009 and 2010	**37,677**	**83,640,877**

16	Distributable reserve	£'000
	As at 31 October 2009	**39,832**
	Write back of issue costs	**30**
	As at 31 October 2010	**39,862**

17	Capital reserves	Capital reserve arising on revaluation of investments held £'000	Capital reserve arising on investments sold £'000	Total £'000
	At 1 November 2009	**4,268**	**(20,682)**	**(16,414)**
	Gains on futures contracts	**10**	–	**10**
	Exchange movements	**(92)**	**885**	**793**
	Movement in investment holding gains	**4,180**	–	**4,180**
	Gains on investments	–	**2,738**	**2,738**
	Costs charged to capital	–	**(390)**	**(390)**
	Movement in credit default swaps	**(88)**	–	**(88)**
	At 31 October 2010	**8,278**	**(17,449)**	**(9,171)**

18 Net asset value per ordinary share

The net asset value per ordinary share is based on the net asset value attributable to ordinary shareholders at the year end of £69.483 million (2009: £62.236 million) and on 83,640,877 (2009: 83,640,877) ordinary shares, being the number of ordinary shares in issue at the period end.

19 Related Party Transactions

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

Details of the fee arrangements for these services are given in the Report of the Directors on page 12. The total of the fees paid or payable under this agreement to Henderson in respect of the year was £562,000 (2009: £431,000) of which £191,000 (2009: £45,000) was outstanding at 31 October 2010.

No performance fee was paid in respect of the year (2009: nil).

(b) Directors' fees of £87,000 relating to the Company were paid during the year (2009: £87,000). A further £10,000 was paid in fees to the Directors of the subsidiary (2009: £9,000). Further details are given in the Directors' Remuneration Report on page 21.

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).

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

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

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

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

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

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

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

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

Total expense ratio
This is total expenses incurred by the Group, including those charged to capital expressed as a percentage of average shareholders' funds over the year.

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

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

Please note that it is very unlikely that either the Company or the Company's Registrar, Computershare, would make unsolicited telephone calls to shareholders 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 phone call, please call either the Company Secretary or the Registrar at the numbers provided on page 44.

Investor Information

Financial calendar

Financial year end	31 October 2010
Annual General Meeting	8 March 2011
Shareholder Event (see below)	10 March 2011
4th Interim dividend 2010	31 December 2010
Ex dividend date	8 December 2010
Record date	10 December 2010
1st Interim dividend 2011	31 March 2011
2nd Interim dividend 2011	30 June 2011
3rd Interim dividend 2011	30 September 2011

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

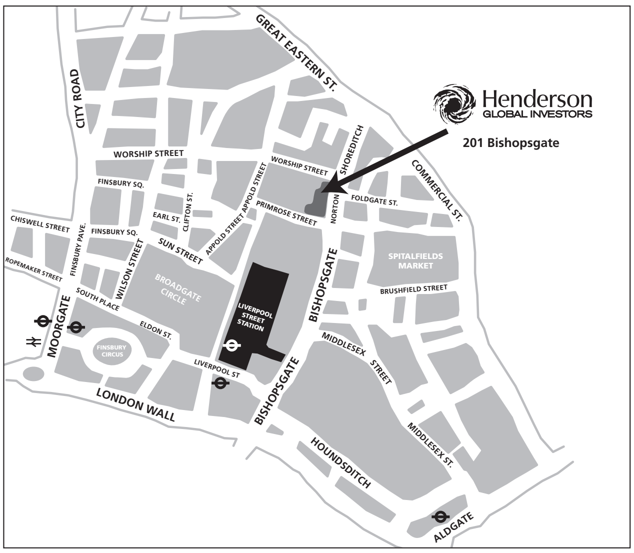
Shareholder Event

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

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

Henderson has therefore arranged a Shareholder Event to be held on Thursday 10 March 2011 at 2.30pm. 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 EPIC code 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

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Henderson Global Investors Limited
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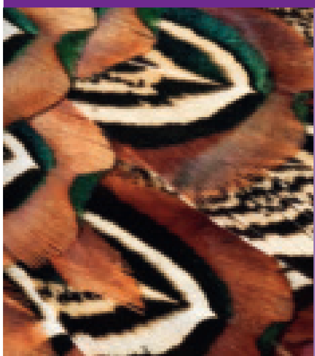

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