Henderson High Income Trust plc

Report and Financial Statements for the year ended 31 December

2012

Henderson High Income Trust plc

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

Investment strategy

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

Independent board of directors

The directors, all of whom are independent of the Investment Manager, meet at least six times a year to consider investment strategy and monitor performance.

Performance Summary

Per ordinary share	31 December 2012	31 December 2011	Change %
Net asset value	**137.32p**	121.36p	+13.2
Market price	**138.25p**	118.50p	+16.7
Revenue return	**8.44p**	8.48p	-0.5

Total return (with net dividends reinvested)	1 year %	3 years %	5 years %
Net asset value ('NAV') per ordinary share◆	20.9	42.8	20.6
Market price per ordinary share	24.1	49.9	35.3
Benchmark*	12.5	25.6	18.7
FTSE All-Share Index†	12.3	24.1	13.2
Merrill Lynch Sterling Non Gilts Index†	13.3	31.6	40.9

◆See page 46 for explanation of movement in the NAV.
*The benchmark is a composite of 80% of the FTSE All-Share Index and 20% of the Merrill Lynch Sterling Non Gilts Index. Source: Morningstar for the AIC.
†Source: Datastream, gross dividends reinvested.

Net dividend yield at 31 December	2012 %	2011 %
Henderson High Income Trust plc	**6.0**	7.0
FTSE All-Share Index†	**3.6**	3.5
Merrill Lynch Sterling Non Gilts Index†	**3.4**	4.8

†Source: Datastream.

Dividend Information and Payment Dates

The next dividend payment to shareholders will be made on 30 April 2013. This will be the first interim dividend in respect of the year to 31 December 2013 and will be paid to shareholders registered on 12 April 2013. The shares will be quoted ex-dividend from 10 April 2013. The Company declared and paid four dividends of 2.075p each in respect of the year to 31 December 2012, making a total of 8.30p for the year.

Details of the dividends paid during the year ended 31 December 2012 are given in the Reconciliation of Movements in Shareholders' Funds on page 28. The dividends in respect of 2013 are expected to be paid on the following dates:

First interim: 30 April 2013
Second interim: 31 July 2013
Third interim: 31 October 2013
Fourth interim: 31 January 2014

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*Inside front cover
**Inside back cover

Chairman's Statement

Hugh Twiss

Performance

In my interim statement I said that I thought that it could prove challenging to repeat in the second half of the year the same level of returns which we had seen in the first half of the year, although I was confident that our Portfolio Manager would do his best to meet this challenge. In the event he more than rose to the challenge and substantially improved on the positive trend of the first half, to produce a Net Asset Value total return for the whole year of 20.9%, significantly outperforming our benchmark index's total return of 12.5%, so fully justifying the payment to Henderson Global Investors under our performance-related fee arrangement. We benefited from a recovery in equity markets, but also from continued strength in bond markets; all this in spite of a background of mixed economic and political news. Our Portfolio Manager in his Investment Review expands on why we outperformed, but it should be recognised that it was a real achievement. When put together with the good performance of recent years, this means that the Company has outperformed our benchmark over one, three, five and ten years.

In previous statements I have compared the performance of the UK stock market to a ride on the big dipper and a look at the chart of the FTSE All-Share Index over 2012 below shows an uncanny resemblance to the design of what would be an awesome big dipper if it was ever to be built. The recovery from the low point of the big 'switch back' in June has not been without its excitement and it is, of course, against this background that our Portfolio Manager has produced such an excellent outcome.

FTSE All-Share Index

Dividends

We have continued to pay quarterly dividends at the rate of 8.30p per annum, with the payments in respect of 2012 once more covered by revenue. We have, therefore, made a small transfer to our revenue reserves which is in line with our previously stated priority to replenish them so that if conditions again deteriorate and dividend payments by the companies we hold are adversely affected, we are better able to meet our objective of at least maintaining our own dividend. Nonetheless it still remains our aspiration to increase distributions as and when we can have sufficient confidence that such an increase would be sustainable going forward. Whilst we are not there yet, we are hopefully moving closer and so we will keep the level of our dividend under review during the year and in light of our actual experience and the investment conditions and outlook at the time.

Gearing

Gearing is, as I have often reminded shareholders, an important feature of the Company. We utilise it to enable us to generate additional income, and hopefully also capital growth over time. With interest rates still substantially lower than the yield on many good quality equities, there are clearly advantages to utilising borrowings at the current time. At the year end the net gearing was 18.3% which was lower than it had been at the same point last year, largely a reflection of the rise in the value of our assets. Conditions in the banking sector have improved and as the pricing of longer term facilities is now more attractive, we have decided to renew our borrowing facility for a two year term.

Annual General Meeting

As shareholders will be aware, our shares have traded at a premium to their net asset value for most of the year, indeed at the end of the year the share price was on a modest premium. This has been as a result of a steady demand for our shares in the market and, therefore, we have issued 6.97 million new shares at a premium to net asset value in the course of the year to meet this demand. This has been within

Chairman's Statement
continued

the authority granted to the board by shareholders at the AGM and is consistent with our policy of wishing to see the Company grow, to promote liquidity and avoid too substantial a premium from developing. This we believe is to the benefit of our existing shareholders. We will again be asking shareholders to renew this authority at the forthcoming AGM.

Following the introduction of new investment trust tax rules it is now possible for investment trust companies to distribute capital profits by way of dividend. We are, therefore, proposing a resolution at the AGM to enable the Company to take advantage of the added flexibility allowed by these new tax rules. However, the Board has no intention at the current time to distribute capital profits as dividends, but believe that it is in shareholders' best interests for the Board to have this power should circumstances warrant it in the future.

The Board recommends that shareholders vote in favour of all resolutions as all the Directors intend to do in respect of their own shares.

Outlook

It may not have always felt like it, but we have effectively been in a bull market since the lows of 2009, with the FTSE All-Share Index near its all time high in 2007. After such a run it quite naturally raises the question of how much longer it can continue. Certainly economic concerns remain and valuations are not as low as they were a year ago, but then neither are they too demanding. There appears little prospect that interest rates are going to start rising in the immediate future and with yields on bonds and cash so low, the equity market offers one of the few prospects of earning a reasonable yield and should continue to attract investors looking for income. Nonetheless capital returns, certainly in the bond markets, may not match those of the last year, although hopefully the income part of the return will remain secure. So again I think our Portfolio Manager faces challenges in 2013, but he has met them before and I remain confident that he will rise to the task again.

Hugh Twiss, Chairman
27 March 2013

Investment Review

Alex Crooke

Review of the year to 31 December 2012

Against a backdrop of weak economic growth and investor fears, the stock market's progression over the year has confounded many commentators. Following a mixed first half of the year, the UK equity market rose in value every month from the end of May, buoyed by good company results and falling government bond yields in Europe. Support was given to markets by comments from Mario Draghi, the President of the European Central Bank, stating his commitment to the Euro and various schemes to support European states in trouble. Closer to home, the UK experienced limited economic success as the Olympics provided some support for the economy but the mix of poor weather and extra bank holidays, combined with inflationary pressures, impacted consumer spending. Despite a tough economic backdrop, many companies reported good results and healthy dividend growth as tight control of operating costs, falling interest exposures and lower taxes offset sluggish revenue growth.

The Trust's NAV total return was 20.9% over the year, which reflected outperformance by both the equity and fixed interest portfolios combined with the benefit of gearing. The equity portfolio produced a total return of 17.7% compared to the 12.3% gain of the FTSE All-Share Index. This portion of the portfolio was aided by having limited exposure to the poorest performing areas of the market, such as Mining, Oils and Pharmaceuticals, while a greater proportion of investment was allocated to top performing sectors such as Insurance, Industrials and Media. Some holdings, such as the house-builder Galliford Try, insurance company Catlin and newspaper distributor Smiths News, produced returns that were considerably better than the overall market. The stock selection was particularly favourable for the Trust in the mid-sized and smaller company segments of the portfolio. Over the year, careful stock selection and limited exposure to poorly performing sectors such as oils and pharmaceuticals helped to enhance the portfolio's return.

The fixed interest portfolio produced an exceptional outturn producing a total return of 23.2% compared to the 13.3% return from the Merrill Lynch Sterling Non Gilts Index. This more than made up the deficit against this benchmark last year and reflected an overweight position in insurance bonds and the diversification into European bonds. The portfolio was broadened during the year to include both US dollar and Euro dominated bonds and to maintain a reasonable yield despite a high number of bonds being called by issuers. The fixed interest portfolio produced a similar return profile to the equity market with the bulk of returns being made in the second half of the year as investors put money to work in all asset classes.

The income return over the year may at first glance look dull, decreasing by 0.5% to 8.44p per share but importantly this remains greater than our annual dividends of 8.30p and

The ten largest investments at 31 December 2012 were:

Position	Company	Sector	**Fair value 2012 £'000**	Fair value 2011 £'000	**Percentage of portfolio 2012**	Percentage of portfolio 2011
1	Vodafone	Telecommunications	**7,696**	8,914	**4.9%**	6.5%
2	British American Tobacco	Consumer Goods	**6,585**	6,447	**4.2%**	4.7%
3	GlaxoSmithKline	Healthcare	**5,797**	6,390	**3.7%**	4.7%
4	BP	Oil & Gas	**5,735**	5,731	**3.7%**	4.2%
5	National Grid	Utilities	**5,377**	4,781	**3.4%**	3.5%
6	BT	Telecommunications	**5,287**	4,368	**3.4%**	3.2%
7	Legal & General*	Financials	**5,286**	1,787	**3.4%**	1.3%
8	Catlin	Financials	**5,262**	4,166	**3.3%**	3.1%
9	Standard Life*	Financials	**4,433**	2,166	**2.8%**	1.6%
10	Galliford Try	Industrials	**4,410**	2,816	**2.8%**	2.1%
			55,868	47,566	**35.6%**	34.9%

*includes fixed interest

Investment Review

continued

therefore marginally increased our revenue reserves. Underlying dividends from our investments remained robust and most companies increased dividends over the year. However, the amount of special dividends was much lower as Vodafone in particular did not repeat its special payment from the previous year. Additionally, a lower proportion of bond income and a greater number of shares in issue also affected the revenue per share. Entering the current year the Trust has a greater exposure to equities, which increases the proportion of the investment portfolio which should experience some form of income growth.

Gearing was reduced through the year, both in terms of net debt (£24.3m vs £27.5m) and as a percentage of shareholders' funds (18.3% vs 25.3%). The increase in share prices combined with share issuance are the two prime factors behind the fall in gearing, although we also felt it prudent to reduce exposure to fixed interest holdings given the appreciation seen in this market. We have negotiated a new two year facility on similar terms to last year which will give the Company access to continued low borrowing cost. We expect to continue to utilise gearing to enhance both income generation and capital growth when we feel opportunities exist in investment markets.

Portfolio activity

The current portfolio positioning was largely executed back in 2010 and benefits of this were realised with the strong relative performance delivered both this year and in 2011. During the year there was relatively little portfolio activity as we were confident in the mix of fixed interest and equities, combined with the underlying companies we held. The majority of the changes in sector exposures were a result of share price appreciation especially in increasing allocations to insurance and industrials while reducing those to telecoms and tobacco.

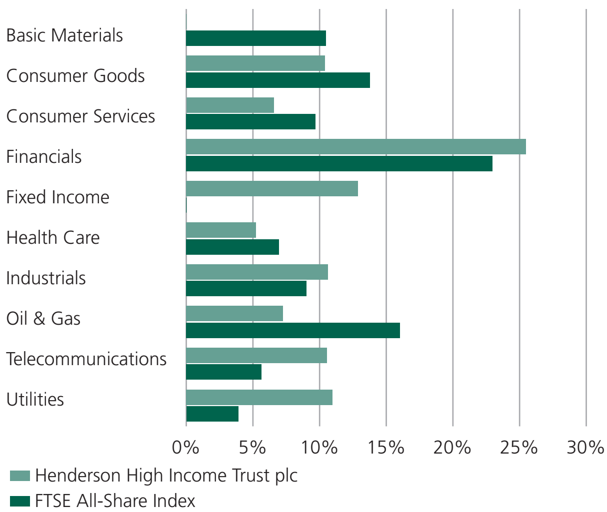
We did actively increase the consumer and media exposure reflecting our positive outlook for both sectors and the low valuations of companies in this area. New holdings included Informa, which provides information to businesses across a wide range of sectors and through multiple formats. Other new holdings included Inmarsat, the satellite telecommunications provider, reflecting the growing adoption of their new terminals on ships and within the oil industry. Positions in Centrica and Drax were both increased because it was expected that as nuclear and coal fired power stations are closed, electricity power prices will move steadily higher benefiting both companies. We have maintained a modest exposure to European markets, principally in sectors with very limited choices in the UK market. During the year we have added an investment in Statoil, based in Norway, which has been increasing oil production and provides diversification from the two UK listed oil companies in the portfolio.

Sales during the year included the position in Insurance company Aviva which was switched into Legal and General. This should provide better protection for dividend income while providing better growth and a stronger position in the UK pensions and life assurance markets. The Rio Tinto holding was sold after a strong rise in share price, as was the holding of life assurer Prudential, allowing a rotation into lower valued and higher yielding stocks elsewhere in the market.

Changes to the fixed interest portfolio were largely forced upon us because many companies have taken advantage of strong demand and low borrowing costs to refinance their bonds. There has also been a trend for well financed companies to simply retire debt when it reaches maturity rather than reissue. We have continued to diversify beyond the sterling market by purchasing a US dollar bond from Iron Mountain and Euro bonds from Rexel and RWE. Around 25% of the fixed interest portfolio is currently issued in currencies other than sterling, although this exposure is partially offset by borrowings in Euros and US dollars.

I have been ably supported by my deputy manager, Ben Lofthouse, during the past few years but as his role at

Sector analysis of the equity portfolio at 31 December 2012



Source: Henderson Global Investors

Investment Review

continued

Henderson has expanded it is appropriate to make a change to the deputy fund manager of the Company. David Smith has accepted this role and will increasingly work with me in managing the portfolio. He has been with Henderson for eleven years and has worked in a number of analytical roles and managed UK institutional equity portfolios for the past five years. I know he will make a significant contribution to extending the Company's record of dividend distributions and capital growth.

Outlook

Last year many of the global risks that overhung equity markets either never materialised or were partially neutralised. In a sense, equity markets rose in value because no major events occurred to derail them and their upward progress steadily dragged in more investment seeking better returns. The future still contains many uncertainties that need resolving but most are well understood and gradually solutions will be proposed. However, it has to be said that the problems in Europe do require further creative solutions and ultimately a form of debt forgiveness is essential for the heavily indebted southern nations if the Euro is to retain its current membership.

The UK economy is exhibiting little growth because real wages continue to fall and although jobs are being created, too many are part time and on low wages. Against this backdrop of weak economic activity we need to focus the stock selection on those companies which have strong franchises or where growth is derived from quicker growing economies overseas. The UK stock market is dominated by companies conducting much of their business abroad and we have a wide selection to choose from. The valuation of the overall stock market is no longer cheap but in relation to bond prices it represents excellent value. We anticipate keeping the bond exposure at its current level or even possibly moving it lower if inflationary pressures push longer term bond prices lower. The prospects for equity dividend growth combined with gradually improving global economic activity makes a significant equity exposure, relative to bonds, a more appealing mix for current conditions.

The key to sustained recovery in equity prices over the coming year will be earnings growth from the largest sections of the market. The second half of 2012 saw analysts downgrade profit expectations from financials, mining and consumer related sectors and it would be beneficial to see these cuts reversed, aiding the valuation support to the equity market. Dividends in aggregate are expected to increase and it could be this factor that provides the underpinning of the equity market, attracting increasing proportions of the pool of savings currently invested in bonds and cash. Getting investors to change their perception of equities as risky and consider them as providers of long term income as well as capital growth would provide support to the share price of many companies within the Company's portfolio.

Alex Crooke
27 March 2013

Top ten holdings by contribution to income during the year ended 31 December 2012

Holding	£'000
Carador	531
Vodafone	485
National Grid	411
GlaxoSmithKline	317
Catlin	298
Severn Trent	283
Legal & General*	281
BP	276
British American Tobacco	276
BT	199
Total	**3,357**

These represent 39.3% of the total income from investments during the year
* includes fixed interest income

FTSE All-Share dividends (rebased to 100 at 1 January 2007)

Investments: Fixed Interest

Valuations at 31 December 2012

FIXED INTEREST	£'000
Preference Shares	
General Accident 8.875%	960
Middlefield Canadian Inc Part Pref 7%	791
National Westminster Bank 9%	623
Total Preference Shares	**2,374**

FIXED INTEREST	£'000
Anglian Water Osprey Finance 7% 2018	758
Bank of Scotland 9.375% 2021	430
BUPA Finance 6.125% 2049	1,710
Daily Mail & General Trust 5.75% 2018	529
Firstgroup 6.875% 2024	277
Investec Bank 9.625% 2022	1,093
Iron Mountain 5.75% 2024	1,021
ITV 7.375% 2017	1,101
Kabel Deutsch Holdings 6.5% 2017	244

FIXED INTEREST continued	£'000
Legal & General 6.385% Perpetual	2,374
National Westminster Bank 5.9779% 2049	306
Prudential 11.75% 2049	203
Rexam 6.75% 2067	1,181
Rexel 7% 2018	1,118
RL Finance 6.125% Perpetual	1,138
Royal & Sun Alliance 8.5% Perpetual	649
RWE 7% Perpetual	653
Service Corporation International 8% 2021	1,195
Standard Chartered Bank 8.103% Perpetual	1,110
Standard Life 6.546% 2049	946
Unity Media 7.5% 2013	482
Virgin Media 5.5% 2021	728
Ziggo 8% 2018	848
Total Others	**20,094**
TOTAL FIXED INTEREST	**22,468**

Investments: Equities (including convertibles and investment funds)

Valuations at 31 December 2012

OIL & GAS	£'000
Oil & Gas Producers	
BP	5,735
Royal Dutch Shell Plc B	3,181
Statoil (Norway)	1,844
Total Oil & Gas	**10,760**

INDUSTRIALS	£'000
Aerospace & Defence	
BAE Systems	1,179
Construction & Materials	
Balfour Beatty *	817
Galliford Try	4,410
Marshalls	503
Industrial Engineering	
IMI	1,481
Metalrax	49
Senior	1,138
Industrial Transportation	
Fisher J & Sons	1,620
Goldenport (Greece)	39

INDUSTRIALS continued	£'000
Support Services	
Amec	681
Berendsen	904
De La Rue	958
Electrocomponents	1,023
Premier Farnell *	363
Smiths News	2,237
Total Industrials	**17,402**

CONSUMER GOODS	£'000
Beverages	
Diageo	1,787
Food Producers	
Cranswick	855
Dairy Crest	1,594
Hilton Food Group	1,994
Tate & Lyle	950
Tobacco	
British American Tobacco	6,585
Imperial Tobacco	2,610
Total Consumer Goods	**16,375**

Investments: Equities (including convertibles and investment funds)

continued

HEALTH CARE	£'000
Pharmaceuticals & Biotechnology	
AstraZeneca	2,442
GlaxoSmithKline	5,797
Total Health Care	**8,239**

CONSUMER SERVICES	£'000
Food & Drug Retailers	
Sainsbury (J)	1,311
Tesco	1,176
General Retailers	
Majestic Wine	1,223
Marks & Spencer	1,912
Media	
Informa	1,045
ITV	931
Travel & Leisure	
Compass	1,088
The Hotel Corporation	12
Marston's	1,302
Thomas Cook	326
Total Consumer Services	**10,326**

TELECOMMUNICATIONS	£'000
Fixed Line Telecommunications	
BT	5,287
Kcom	1,300
Mobile Telecommunications	
Inmarsat	1,221
Tele2 (Sweden)	1,107
Vodafone	7,696
Total Telecommunications	**16,611**

UTILITIES	£'000
Electricity	
Drax	2,361
Scottish & Southern Energy	1,900
Gas Water & Multiutilities	
Centrica	2,641
National Grid	5,377
Severn Trent	3,289
United Utilities	1,684
Total Utilities	**17,252**

FINANCIALS	£'000
Banks	
HSBC	2,951
Nonlife Insurance	
Amlin	758
Catlin	5,262
Direct Line Insurance	856
Jardine Lloyd Thompson	3,450
RSA Insurance	943
Life Insurance	
Chesnara	1,343
Hansard	518
Legal & General	2,912
Phoenix	1,362
Standard Life	3,487
Real Estate	
Hansteen	640
Land Securities	1,342
General Financial	
Eurocastle (Netherlands)	1
Intermediate Capital	2,367
Investec	758
Tullett Prebon	1,007
Equity Investment Instruments	
Carador (Ireland)	3,355
Henderson Diversified Income	1,924
John Laing Infrastructure	2,428
Total Financials	**37,664**
TOTAL EQUITIES	**134,629**

*Convertibles

Classification of Investments

at 31 December 2012

	Total 31 December 2012 %	Total 31 December 2011 %
FIXED INTEREST		
Preference shares	**1.5**	2.1
Others	**12.8**	13.6
Total Fixed Interest	**14.3**	15.7
EQUITIES		
Oil & Gas		
Oil & Gas Producers	**6.8**	6.8
Total Oil & Gas	**6.8**	6.8
Basic Materials		
Mining	**–**	1.1
Total Basic Materials	**–**	1.1
Industrials		
Construction & Materials	**3.6**	3.0
Aerospace & Defence	**0.8**	0.7
Industrial Engineering	**1.7**	1.6
Industrial Transportation	**1.1**	0.9
Support Services	**3.9**	3.3
Total Industrials	**11.1**	9.5
Consumer Goods		
Beverages	**1.1**	1.0
Food Producers	**3.4**	4.0
Tobacco	**5.9**	6.7
Total Consumer Goods	**10.4**	11.7
Health Care		
Pharmaceuticals & Biotechnology	**5.2**	4.7
Total Health Care	**5.2**	4.7
Consumer Services		
Food & Drug Retailers	**1.6**	0.9
General Retailers	**2.0**	0.6
Media	**1.3**	0.4
Travel & Leisure	**1.7**	2.2
Total Consumer Services	**6.6**	4.1

	Total 31 December 2012 %	Total 31 December 2011 %
Telecommunications		
Fixed Line Telecommunications	**4.2**	4.1
Mobile Telecommunications	**6.4**	7.8
Total Telecommunications	**10.6**	11.9
Utilities		
Electricity	**2.7**	2.5
Gas Water & Multiutilities	**8.3**	7.9
Total Utilities	**11.0**	10.4
Financials		
Banks	**1.9**	2.3
Nonlife Insurance	**7.2**	6.3
Life Insurance	**6.1**	6.5
Real Estate	**1.3**	1.6
General Financial	**2.6**	2.5
Equity Investment Instruments	**4.9**	4.9
Total Financials	**24.0**	24.1
Total Investments	**100.0**	100.0

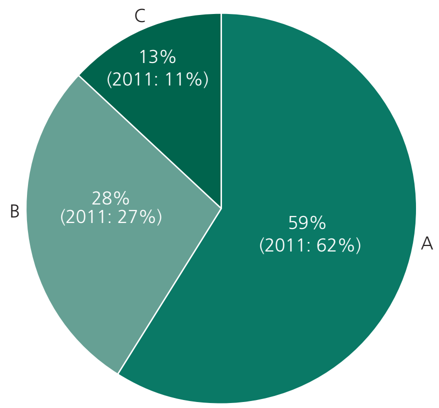
Distribution of the UK equity holdings of Henderson High Income Trust plc

at 31 December 2012

A Large companies (constituents of the FTSE 100 Index)

B Medium-sized companies (constituents of the FTSE 250 Index)

C Small companies



Directors


Hugh Twiss


Vivian Bazalgette


Andrew Bell


Margaret Littlejohns


Anthony Newhouse


Janet Walker

Hugh Twiss joined the Board on 1 October 2003 and was elected Chairman in May 2006, having been Chairman of the Nominations Committee since January 2004. He has more than 30 years' investment experience, predominantly with the Flemings Group where he was a senior member of their investment management operation for many years, including responsibility for investment teams and other business issues, before retiring in 2001. He has had many years' involvement with investment trusts, including as a director, manager, major institutional shareholder and long time personal investor. He is currently Chairman of INVESCO Income Growth Trust plc and is involved with various charities, as well as doing consultancy assignments, including working with Trust Associates.

Vivian Bazalgette joined the Board on 1 November 2004 and was Chairman of the Audit Committee from May 2006 until September 2008. His career as an investment specialist began over 30 years ago and included periods with James Capel, the stockbrokers, and Mercury Asset Management, before spending nearly 10 years at Gartmore where he became Managing Director of Pension Funds. In 1996 he joined M&G as Chief Investment Officer, retaining the same position until 2002 after M&G's acquisition by Prudential. He was also a director of M&G High Income Investment Trust plc. He is currently a non-executive director of Brunner Investment Trust plc and Perpetual Income and Growth Trust plc, an adviser to BAE Systems Pension Fund and the Nuffield Foundation, as well as being Chairman of the Investment Committee and a non-executive director of St James's Place PLC. Among a number of charity involvements, he is vice chairman of the governors of Dulwich College and a member of the Advisory Board of Greenwich Hospital.

Andrew Bell joined the Board on 1 November 2004. He has worked in the City since 1987, initially specialising in European equities as a strategist at Barclays de Zoete Wedd (BZW), following which he was Co-Head of the Investment Trusts team at BZW and Credit Suisse First Boston. From 2000 until February 2010 he worked for Carr Sheppards Crosthwaite and Rensburg Sheppards as Head of Research, leaving to take up appointment as a director and Chief Executive Officer of Witan Investment Trust plc from 8 February 2010. Prior to the City, he worked for Shell in Oman, leaving to take a Sloan Fellowship at the London Business School. He is the Chairman of the Association of Investment Companies.

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

Anthony Newhouse joined the Board on 1 July 2008. He is a solicitor who was a partner in Slaughter and May until 2008. He began his career in the City in banking and joined Slaughter and May in 1976, where he became a partner in 1984. He had a wide-based domestic and international corporate finance practice, advising many UK listed and other corporate entities. He has subsequently been a member of the PwC advisory board and a visiting professor at the London Metropolitan University Business School.

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

All directors are non-executive and are members of the Audit, Management Engagement and Nominations Committees.

Management


Alex Crooke


David Smith


David Rice

Alex Crooke has been Portfolio Manager of the Company since 1997. He is also manager of The Bankers Investment Trust PLC.
David Smith has been Deputy Portfolio Manager since January 2013.
David Rice ACIS is the appointed representative of the Corporate Company Secretary, Henderson Secretarial Services Limited.

Report of the Directors

The directors present the audited financial statements of the Company and their report for the year from 1 January 2012 to 31 December 2012.

BUSINESS REVIEW

The following business review is designed to provide information about the Company's business and results for the year ended 31 December 2012. The Business Review should be read in conjunction with the Investment Review on pages 5 to 7, which gives a detailed review of the investment activities for the year and an outlook for the future.

a) Status

Henderson High Income Trust plc (registered in England and Wales, number 2422514) (the 'Company') traded throughout the year and was not dormant.

The Company is an investment company as defined in Section 833 of the Companies Act 2006 and operates as an investment trust in accordance with Section 1158 of the Corporation Tax Act 2010 ('CTA'). It was required to seek approval from HM Revenue & Customs ('HMRC') of its status as an investment trust under Section 1158 every year up to and including the year to 31 December 2011. HMRC approval of the Company's status as an investment trust has been received in respect of the year ended 31 December 2011, although this approval is subject to there being no subsequent enquiries under Corporation Tax Self Assessment. From 1 February 2012 approval is by way of a one-off application for investment trust status, for which approval has been granted. The directors are of the opinion that the Company has continued to conduct its affairs in a manner that will enable it to continue to gain such approval.

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

b) Investment objective and policy

The Company's objective is to provide investors with a high dividend income stream while also maintaining the prospect of capital growth.

Investment approach

To achieve this objective, the Company invests in a prudently diversified selection of both equities and fixed interest securities. A substantial majority of the Company's assets is invested in equities, namely the ordinary shares of listed companies, with the balance in listed fixed interest securities, such as convertibles, corporate bonds and sovereign debt. The proportion invested in equities (measured at the time of purchase) would be unlikely to exceed 90%, or fall below 50%. The Company invests predominantly in companies listed in the UK and does not expect to invest more than 20% of total assets in non-UK listed companies.

The selection process seeks to identify companies with strong balance sheets and capable of paying dividends to their shareholders. The Company's Portfolio Manager employs an investment process that focuses on individual shares, trading at low valuations. Suitable investment opportunities are reviewed with particular regard to cash generation, growing dividends and strong management with shares being chosen for their combination of both expected income and capital appreciation. The portfolio is diverse, containing a sufficient range of investments (currently about 94) to ensure that no single investment puts undue risk on the sustainability of the income generated by the portfolio or indeed the capital value. Regard is also given to having a broad mix of companies in the portfolio, as well as a spread of risk across a range of economic sectors.

Investment policy

The Company will not invest more than 15% of its total assets in any single investment, nor will it invest more than 15% of its total assets in other investment trusts or investment companies.

The Company has an active policy of using appropriate levels of gearing, usually in the form of bank borrowings, in order to enhance returns. A degree of gearing is usually employed with respect to the fixed interest portion of the Company's portfolio in order to generate additional income. The draw down of borrowings is principally in sterling but may be in other currencies, provided that these borrowings do not exceed the assets held in that particular currency. The gross level of borrowings at draw down will not be greater than 40% of the total value of the Company's investments.

Risk management and portfolio analysis

The Company looks to reduce investment risk and achieve an appropriate spread of investment risk principally through holding a broadly diversified portfolio containing both equities and fixed interest securities, as described above. The largest single exposure to any individual company at 31 December

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2012 was Vodafone which accounted for 4.9% of the total portfolio. The top 10 holdings amounted to 35.6% (2011: 34.9%) of the total portfolio.

Investment risk may also be further reduced through the use of financial futures and options. This will only be for the purposes of efficient portfolio management by reducing market, interest rate or credit risk within the portfolio or generating income.

Full details of the Company's portfolio can be found on pages 8 and 9, and an explanation of the movement in NAV against the Company's relevant composite benchmark index is contained on page 46. Further information regarding investment risk and portfolio activity throughout the year can be found in the Investment Review on pages 5 to 7.

c) Financial review

	2012	2011	% Change
Net asset value per share	**137.32p**	121.36p	+13.2
Revenue return per share	**8.44p**	8.48p	-0.47

Assets

Total net assets at 31 December 2012 amounted to £132,764,000 compared with £108,870,000 at 31 December 2011, and the net asset value per ordinary share increased from 121.36p to 137.32p.

At 31 December 2012 there were 94 (2011: 94) separate investments, as detailed on pages 8 and 9.

Costs

Transaction costs, which include stamp duty and totalled £83,000, are included within the purchase costs or netted against the sales proceeds of investments. In the year under review borrowing costs totalled £581,000, the management fee totalled £685,000 and other expenses totalled £321,000. These figures include VAT where applicable. The portfolio performance in terms of cash return, adjusting for purchases, sales and income during the year was £24,345,000, compared to the benchmark return of £17,241,000. A performance fee of 15% of the difference between these two sums, amounting to £1,065,000, has been awarded to the Manager, Henderson Global Investors.

Revenue

The Company's gross revenue totalled £8,736,000 (2011: £8,704,000). After deducting expenses, the revenue return for the year was £7,763,000, an increase of 2.4% from the previous year's figure of £7,581,000.

Dividends paid and proposed

Four dividends were paid during the financial year to 31 December 2012: the fourth interim dividend in respect of the financial year to 31 December 2011 and the first, second and third interim dividends in respect of the year to 31 December 2012.

A fourth interim dividend in respect of the financial year to 31 December 2012 was paid on 31 January 2013.

Payment of suppliers

It is the payment policy to obtain the best possible terms for all business and thereafter to abide by such terms. Therefore, there is no single policy as to the terms used. There were no trade creditors at 31 December 2012.

Loan facility and gearing

The Board has in place a loan facility that allows it to borrow as and when appropriate. At 31 December 2012 the Company had a committed loan facility with Scotiabank of £41m. Details of the facility are contained in note 12 on page 37. The facility expires on 31 March 2013. A new two year multi-currency facility of £42m has been agreed with Scotiabank to commence on 1 April 2013. Net gearing at 31 December 2012 was 18.3% (net of cash), defined as net current liabilities as a percentage of equity shareholders' funds.

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 and policy in accordance with the strategy outlined above. Further comments on the outlook for the Company for the next year are set out in both the Chairman's Statement on pages 3 and 4 and the Investment Review on page 7.

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 Henderson Global Investors, the directors take into account the following key performance indicators, and consider dividends and overall portfolio performance to be the most important.

Dividend policy

The Board places a high level of importance on maintaining the Company's dividend payments. The aim is to maintain a

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suitable asset allocation that will permit a sustainable high level of dividend distributions to shareholders with the potential to grow in the longer term, although market conditions in recent years have prevented growth in the dividend. The Board reviews the Company's revenue account at every Board meeting, along with the appropriateness of its dividend payments. The Board also compares the yield on the Company's shares to other relevant sectors of the AIC.

Shareholders must, however, recognise that dividend payments can never be guaranteed, and that circumstances may arise when it may be necessary to reduce or pass a dividend payment. In addition, the Board may from time to time decide to utilise some of the Company's revenue reserves to fund dividends, as has been the case in recent years. Equally, there may be instances when the level of payment must be increased in order to comply with Section 1158 of the CTA which requires an investment trust not to retain more than 15% of its total income. Where such instances would result in a payment going beyond the Board's aim, one-off "special dividend" payments would be declared and paid.

Performance

At each meeting the Board reviews the performance of the portfolio as well as the net asset value and share price of the Company. The Board also compares the performance of the Company against the benchmark. The Board has determined that this measure be used to calculate whether a performance fee is payable to the Manager. Further details of the arrangements with the Manager are given in section i) on page 15.

Premium/discount to net asset value ("NAV")

At each Board meeting, the Board monitors the level of the Company's premium or discount to NAV per share and reviews the average premium or discount for the AIC UK High Income sector.

The Company publishes the NAV per share figure on a daily basis through the official newswire of the London Stock Exchange. This figure is calculated in accordance with the AIC formula, which since June 2008 has included current year revenue items. Prior to that date, the AIC formula and the daily NAV excluded current year revenue items.

Ongoing charges

Ongoing charges are those expenses of a type which are likely to recur in the foreseeable future, whether charged to capital or revenue, and which relate to the operation of the investment company as a collective fund, excluding the cost of acquisition or disposal of investments, financing charges or gains or losses arising on investments. The Board regularly reviews the ongoing charges and monitors all Company expenses. For the year ended 31 December 2012 the ongoing charges (excluding performance fee) were 0.85% (2011: 0.87%).

The following table sets out, with comparatives, the key performance indicators:

	Year to 31 December 2012 %	Year to 31 December 2011 %
Net asset value total return	**+20.9**	+2.3
Benchmark total return	**+12.5**	-1.3
FTSE All-Share Index total return	**+12.3**	-3.5
Merrill Lynch Sterling Non Gilts Index total return	**+13.3**	+7.1
Share price total return	**+24.1**	+1.5
Premium/(discount) at year end	**+0.7**	-2.3
Ongoing Charges (excluding performance fee)*	**0.85**	0.87
Dividends	**8.30p**	8.30p

*Ongoing charges exclude performance fees, if included the charge would have been 1.7% in the year. (2011: 1.9%)

e) Going concern

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

The directors therefore believe that it is appropriate to continue to adopt the going concern basis in preparing the financial statements. In reviewing the position as at the date of this report, the Board has considered the guidance on this matter issued by the Financial Reporting Council in October 2009.

A continuation vote was put to shareholders at the 2010 AGM and was duly passed. The Articles of Association require the next continuation vote to be proposed at the 2015 AGM.

f) Related party transactions

Investment management, accounting, company secretarial and administration services are provided to the Company by wholly-owned subsidiary companies of Henderson Global Investors Limited ("Henderson" or "Manager"). The provision of services by Henderson is the only related party arrangement currently in place. Other than fees payable by

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the Company in the ordinary course of business there have been no material transactions with this related party affecting the financial position or performance of the Company during the year under review.

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

g) Custody arrangements

Since August 2011 HSBC Bank has been the Company's custodian.

h) Regulatory development

The Board and the Company's Manager are reviewing the impact of the Alternative Investment Managers Directive, which will be written into UK legislation in 2013 and which may have an impact on the Company.

i) Management arrangements

The investment management agreement with Henderson to provide the services referred to above is reviewed by the Board annually and has a six months' notice period, given by either party.

Performance is measured over a single financial year. Performance is measured by aggregating the difference between the portfolio performance and the benchmark performance. The benchmark is 80% of the FTSE All-Share Index (total return) and 20% of the Merrill Lynch Sterling Non Gilts Index (total return).

The portfolio performance is the annual sum of the cash differences in the value of each holding in the total portfolio over each month (excluding any Henderson managed funds) after adjusting for purchases, sales and income.

The benchmark performance is the amount calculated by multiplying the percentage increase in the benchmark over the month by the aggregate initial market value of each of the securities in the portfolio.

In the event that the aggregate portfolio performance is greater than the benchmark performance over the financial year, a performance fee of 15% of the difference will be payable.

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

The base management fee is 0.5% of the average value of assets under management on the last business day of each of the two years preceding the calendar year in respect of which the calculation is made, payable quarterly in arrears. Assets under management excludes any Henderson managed funds or Henderson Group plc shares that might be held in the portfolio.

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

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

The split of management fees and performance fees charged between the income and capital accounts is explained in note 1(f) on page 31.

j) Principal risks and uncertainties

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

Investment activity and performance

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

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Financial

By its nature as an investment trust, the Company's business activities are exposed to market risk (including currency risk, interest rate risk and other price risk), liquidity risk, and credit and counterparty risk.

Although the Company invests almost entirely in securities that are quoted on recognised markets, share prices may move rapidly. The companies in which investments are made may operate unsuccessfully, or fail entirely. A fall in the market value of the Company's portfolio would have an adverse effect on shareholders' funds. The Directors review the portfolio each month and risk is mitigated through diversification of investments in the portfolio.

Further details of these risks and how they are managed are contained in note 13 on pages 37 to 43.

Regulatory

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

Operational

Disruption to, or failure of, the Manager's accounting, dealing or payment systems or the custodian's records could prevent the accurate reporting and monitoring of the Company's financial position. The Company is also exposed to the operational risk that one or more of its suppliers may not provide the required level of service. Details of how the Board monitors the services provided by the Manager and its 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 on page 21.

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 main principles and complied with all relevant provisions of the 2010 UK Corporate Governance Code. As an investment trust, most of the Company's day-to-day responsibilities are delegated to third parties, the Company has no employees and the directors are all non-executive. Therefore, not all the provisions of the Corporate Governance Code are directly applicable to the Company.

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

The Board believes that reporting against 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 on www.theaic.co.uk

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 Corporate Governance Code except as noted below.

Senior independent director

A senior independent 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 when issues arise and to whom concerns can be conveyed.

Report of the Directors

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The role of chief executive

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

Executive directors' remuneration

As the Board has no executive directors, it is not required to comply with the principles of the Corporate Governance 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 24.

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 annually review 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. The Manager has its own internal audit function.

The Bribery Act 2010

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

c) Directors

Board composition

The Articles of Association provide that the total number of directors shall not be less than two nor more than ten; the Board currently consists of six non-executive directors.

The biographies of the directors holding office at the date of this report, which are set out on page 11, demonstrate the breadth of investment, commercial and professional experience relevant to their positions as directors.

All the directors served on the Board throughout the year.

Directors' appointment, retirement and rotation

The Board may appoint directors to the Board without shareholder approval. No directors were appointed during the year.

All directors are appointed for an initial term of three years, after which time they are subject to re-appointment. The Board believes that length of service does not diminish the contribution from a director; on the contrary, a director's knowledge of the Company can be a positive advantage to the Board and retaining directors with sufficient experience of both the Company and the markets is of great benefit to shareholders. Moreover, long-serving directors are less likely to take a short-term view. Consequently, the Board does not have a fixed term tenure policy for its directors.

In accordance with the Articles of Association, directors stand for election at the first Annual General Meeting ("AGM") following their appointment. At every AGM any director who has been appointed by the Board since the last AGM, or who held office at the time of the two preceding AGMs and who did not retire at either of them, or who has held office with the Company for a continuous period of nine years or more at the date of the meeting, shall retire from office and may offer themselves for re-appointment by the shareholders.

Hugh Twiss, who was last re-elected at the AGM in 2010, will therefore retire by rotation and has offered himself for re-election. Mr Twiss has served on the Board for more than nine years and is therefore obliged to offer himself for re-election on an annual basis.

Under the Articles of Association shareholders may remove a director before the end of his term by passing an ordinary resolution at a general meeting. An ordinary resolution is passed if more than 50% of the votes cast, in person or by proxy, are in favour of the resolution.

Board independence

The directors have reviewed their independence and confirm that all directors remain wholly independent of the Manager. All directors have a wide range of other interests and are not dependent on the Company itself.

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.

Report of the Directors

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Directors' remuneration

A report on directors' remuneration is on page 24.

Directors' interests in shares

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

Ordinary shares of 5p	**31 December 2012**	31 December 2011
Beneficial:		
Vivian Bazalgette	**10,000**	10,000
Andrew Bell	**30,000**	30,000
Margaret Littlejohns	**14,000**	7,000
Anthony Newhouse	**20,000**	20,000
Hugh Twiss	**43,941**	41,961
Janet Walker	**6,000**	6,000

There have been no changes in the directors' interests between the end of the financial year and the date of this report.

Directors' conflicts of interest

Directors have a duty to avoid situations where they have, or could have, a direct or indirect interest that conflicts, or possibly could conflict, with the Company's interests. The Companies Act 2006 (the "Act") allows directors of public companies to authorise such conflicts and potential conflicts, where appropriate, but only if the Articles of Association contain a provision to this effect. The Act also allows the Articles of Association to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty: either the situation cannot reasonably be regarded as likely to give rise to a conflict of interest or the matter has been authorised in advance by the directors. The Company's Articles of Association, which were adopted by shareholders on 3 November 2008, give the directors the relevant authority required to deal with conflicts of interest.

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

Directors advise the Chairman and the Company Secretary in advance of any proposed external appointment and new directors will be asked to submit a list of potential situations falling within the conflicts of interest provisions of the Act in advance of joining the Board. The Chairman then determines whether the relevant appointment causes a conflict or potential conflict of interest and should therefore be considered by the Board. Only directors who have no interest in the matter being considered are able to participate in the Board approval process. In deciding whether to approve a conflict of interest, directors act in a way they consider, in good faith, to be most likely to promote the Company's success in taking such a decision. The Board can impose limits or conditions when giving authorisation if the directors consider this to be appropriate.

The Board reviewed its conflicts of interest procedures in September 2012 and confirmed that its powers of authorisation of conflicts have operated effectively since they were introduced. The Board also confirmed that its procedures for the approval of conflicts of interest have been followed by all the directors.

Directors' professional development

When a new director is appointed he or she is offered a training seminar that is 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 affecting directors' responsibilities are advised to the Board as they arise. Directors also participate in relevant training and industry seminars.

Directors' indemnity

Directors' and officers' liability insurance cover is in place in respect of the directors. The Company's Articles of Association provide, subject to the provisions of UK legislation, 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 of the Board and relationship with the Manager

The Board meets at least six times each year and is responsible for the effective stewardship of the Company's affairs. The Board has also established Audit, Management Engagement and Nominations Committees, details of which are set out

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below. The terms of reference for these Committees are available on the Company's website. In addition to formal Board and Committee meetings, directors may also be required to attend a number of additional ad hoc meetings to represent the interests of the Company.

The Statement of Directors' Responsibilities in respect of the financial statements is set out on page 25, the Independent Auditor's Report on page 26 and the statement of going concern on page 14.

The Board has a formal schedule of matters specifically reserved for its decision, which are categorised under various headings including strategy, management, structure, capital, financial reporting, internal controls, gearing, asset allocation, share price discount, contracts, investment policy, finance, risk, investment restrictions, performance, corporate governance, conflicts of interest and Board membership and appointments. A procedure has been adopted for directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company within certain parameters. The Board has delegated to the Manager the management of the investment portfolio, accounting, company secretarial and administration services.

The Board monitors compliance with the Company's objectives and is responsible for setting asset allocation, investment and gearing limits within which the Manager has discretion to act and thus supervises the management of the investment portfolio. The Board also approves any unquoted investments and/or any investments in in-house funds managed or advised by the Manager.

The Manager takes decisions as to the purchase and sale of individual investments and also ensures that all directors receive, in a timely manner, all relevant management, regulatory and financial information. At each meeting the Board reviews the Company's investment performance and considers financial analyses and other reports of an operational nature. Representatives of the Manager attend each Board meeting enabling the directors to probe further on matters of concern. The Board and the Manager operate in a supportive, co-operative and open environment.

In order to enable them to discharge their responsibilities, all directors have full and timely access to relevant information. The Board receives and considers regular reports from the Manager and ad hoc reports and information are supplied to the Board as required. It also has direct access to company secretarial advice and services provided by the Manager, which, through its nominated representative, is responsible for ensuring compliance with Board and Committee procedures and with all applicable regulations. In addition, the Chairman attends meetings of all the chairmen of the investment companies managed by the Manager; these meetings provide a forum to discuss industry matters and the Chairman reports on them to the Board.

Audit Committee

The Audit Committee consists of all the directors. The Chairman is Janet Walker. The Audit Committee comprises more than two independent members and at least one member who has recent and relevant financial experience. The Chairman of the Audit Committee will be present at the AGM to deal with questions relating to the financial statements.

The Committee meets at least three times a year to review the internal financial and non-financial controls, to consider and recommend to the Board for approval the contents of the draft half year and annual reports to shareholders and to review the accounting policies and significant financial reporting judgments. In addition, the Committee reviews the auditor's independence, objectivity and effectiveness, appointment and remuneration. It also reviews, together with the Manager, the Company's compliance with financial reporting and regulatory requirements. Representatives of the Manager's internal audit and compliance department may attend these meetings at the request of the Chairman of the Audit Committee.

Representatives of Grant Thornton UK LLP, the Company's auditor, attend the Committee meeting at which the draft annual report and financial statements are reviewed and are given the opportunity to speak to the Committee members without the presence of the representatives of the Manager.

In accordance with changes made by the Auditing Practices Board and the Financial Reporting Council to the APB's Ethical Standards for Auditors and the FRC's Guidance on Audit Committees, audit committees are required to formulate a written policy on the provision of non-audit services by the Company's statutory independent auditors.

Report of the Directors

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The Audit Committee has reviewed the guidance and has formulated a policy on the provision of non-audit services by the Company's auditors. The Audit Committee has determined that the Company's appointed auditors will never be considered for the provision of non-audit services relating to accounting and preparation of the financial statements, internal audit and custody. The auditors may, if required, provide non-audit services relating to a review of the Company's half year report and a review of the calculation of any performance fee provision. All other non-audit services will be judged on a case-by-case basis and will be approved by a member of the Audit Committee.

During the year under review the Company's auditor did not provide any non-audit services. Grant Thornton UK LLP has indicated its willingness to continue in office. Accordingly, resolutions to re-appoint Grant Thornton UK LLP as auditor to the Company, and to authorise the directors to determine the auditor's remuneration, will be proposed at the AGM.

Management Engagement Committee

The Management Engagement Committee's membership comprises all members of the Board. The Chairman of the Committee is Hugh Twiss.

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

The Management Engagement Committee meets at least annually to review the performance and the continuing appointment of the Manager. In determining whether the Manager should be retained, the Committee also reviews the terms of the management agreement to ensure that it remains competitive and sensible for shareholders. Details of the review undertaken during the year are contained in section g) on page 21.

Nominations Committee

The Nominations Committee comprises all members of the Board. The Chairman of the Committee is Hugh Twiss, but he would not participate if his successor was being considered. The Committee, which meets at least annually, reviews the Board's size and structure and is responsible for Board succession planning.

The Committee also reviews the directors retiring by rotation and makes recommendations to the Board on their re-election. Reappointment as a director is not automatic and will follow a process of evaluation of each director's performance. In accordance with the Corporate Governance Code any director serving for longer than nine years would be subject to annual re-election by shareholders.

When considering succession planning, the Committee bears in mind the balance of skills, knowledge and experience existing on the Board and will recommend when the recruitment of additional non-executive directors is required. Once a decision is made to recruit additional directors to the Board, nominations are gathered from as wide a range of internal and external sources as possible and these are considered in accordance with the Board's agreed procedures. The Committee may also use external agencies or open advertising when appointing new directors if it believes that either method is likely to provide any meaningful advantage over the above process.

The Committee met in January 2013 to carry out its annual review of the Board, its composition and size and its Committees.

At its meeting the Nominations Committee reviewed the performance and commitment of the directors standing for re-election at the 2013 AGM and confirmed that the Chairman continued to bring wide, current and relevant business experience that allows him to contribute effectively to the leadership of the Company. The Nominations Committee is therefore pleased to recommend that the Chairman should seek re-election to the Board.

Report of the Directors
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Board attendance

Attendance at the Board and Committees meetings held during the financial year are shown below. All directors usually attend the AGM.

	Board	Audit Committee	Nominations Committee	Management Engagement Committee
No. of meetings	**6**	**3**	**1**	**1**
Hugh Twiss	6	3	1	1
Vivian Bazalgette	5	3	1	1
Andrew Bell	6	3	1	1
Margaret Littlejohns	6	3	1	1
Anthony Newhouse	6	3	1	1
Janet Walker	6	3	1	1

Committees of the Board also met during the year to approve the results announcements, allotments of shares and other regulatory documents.

e) Performance evaluation

In order to review the effectiveness of the Board, the Committees and the individual directors, the Chairman has put in place a thorough appraisal process. This is implemented by way of a questionnaire and interviews with the Chairman. In respect of the Chairman, he is interviewed by another nominated director. The process is considered by the Board to be constructive in terms of identifying areas for improving the functioning and performance of the Board and the Committees, the contribution of individual directors, as well as building on and developing individual and collective strengths.

The work of the Board as a whole, the Board Committees and the performance of individual directors were reviewed during the year and no areas of concern were identified.

f) Internal controls

The Board retains overall responsibility for the Company's system of internal control and risk management and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate risks of failure to achieve the Company's business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. These controls aim to ensure that the assets of the Company are safeguarded, that proper accounting records are maintained, and that the financial information used internally and externally is reliable.

The Board has therefore established a process for identifying, evaluating and managing any major risks faced by the Company, including risks that are not directly the responsibility of the Manager. The process is subject to regular review by the Board and up to the date of this report accords with the FRC Guidance. Key risks, and the controls that have been put in place to mitigate such risks, are recorded in a risk map which is reviewed regularly by the Board. The Board also receives a quarterly report from the Manager that details any internal control failures.

The Manager and the custodian have established their own internal controls framework to provide reasonable, but not absolute, assurance on the effectiveness of the internal controls operated on behalf of their clients. The effectiveness of these systems is regularly assessed by the Manager's compliance and risk department and the Board receives an annual report from the Manager on internal controls, including a report from the Manager's own auditors on the control policies and procedures in operation.

g) 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 directors undertake a formal review of the Manager annually. At its meeting in November 2012 the Management Engagement Committee reviewed the terms of the management agreement and the performance of the Manager during the year and confirmed that the continuing appointment of Henderson is in the interests of the Company's shareholders as a whole and should be retained for the financial year ending 31 December 2013. The main reasons are the long-term performance of the Manager in managing the Company, its extensive investment management resources and experience in managing and administering investment trust companies.

Report of the Directors

continued

h) Share capital and shareholders

Share capital

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

At the beginning of the year, there were 89,710,744 shares in issue. During the year, the Company issued 6,970,000 new ordinary shares for total proceeds of £9,273,000. At 31 December 2012 the number of shares in issue was 96,680,744.

Since 31 December 2012 and up to the date of this document, a further 1,575,000 shares have been issued. At the date of this report the number of shares in issue is 98,255,744.

Substantial share interests

Declarations of interests in the voting rights of the Company at 31 December 2012 are set out below.

Shareholder	% of voting rights
Legal & General Investment Management	3.12%

Since year end the Company has not been notified of any declarations of interests in the voting rights of the Company.

The Board is aware that, at 31 December 2012, 10.5% of the issued ordinary shares were held on behalf of participants in Halifax Share Dealing products and 3.7% on behalf of participants in Henderson products. The participants in these products are given the opportunity to instruct the relevant nominee company to exercise the voting rights appertaining to their shares in respect of all general meetings of the Company. The nominee companies have stated that they will exercise the voting rights of any shares held through these products that are not exercised by the individual participants. They will do so by voting for or against all resolutions to be put at all general meetings of the Company (or by withholding votes on such resolutions) pro rata to the aggregate voting instructions for each resolution received from those participants who have chosen to exercise their voting rights.

Relations with shareholders

Shareholder relations are given high priority by the Board and the Manager. The prime medium by which the Company communicates with its shareholders is through the half year updates and annual reports, which aim to provide shareholders with a clear understanding of the Company's activities and their results, and the Company's website (www.hendersonhighincome.com). The daily calculation of the net asset value of the Company's ordinary shares and a monthly fact sheet are announced to the London Stock Exchange and are also available on the website.

At each AGM a presentation is made by the Portfolio Manager. Shareholders have the opportunity to address questions to the Chairman and the other directors. All shareholders are encouraged to attend. A summary of the proxy votes received on the resolutions proposed is displayed at the meeting and is available from the Company's website.

It is the intention of the Board that the annual report and financial statements and the notice of the 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 are invited to do so by writing to the Company Secretary at the registered office address given on the inside back cover. At other times the Company responds to letters from shareholders on a range of issues. General presentations to both shareholders and analysts follow the publication of the annual results and all meetings between the Manager and shareholders are reported to the Board.

Board authorities to issue and buy back share capital

At each AGM the directors seek authority from the shareholders to allot new ordinary shares, to disapply the pre-emption rights of existing shareholders, and to buy back for cancellation or to hold in treasury the Company's ordinary shares.

i) Corporate Responsibility (SEE statement)

Responsible Investment

Responsible Investment is the term Henderson uses to cover its work on corporate governance and corporate responsibility (or social, environmental and ethical issues ('SEE')) in the companies in which it invest 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 issues into mainstream investment decision-making and ownership practices.

Report of the Directors

continued

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; however, an investment may not necessarily be ruled out for social and environmental reasons only.

Voting policy

The Board has reviewed Henderson's Responsible Investment Policy (which 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) and has delegated responsibility for voting to the Manager. The Policy also sets out how Henderson implements the UK Stewardship Code.

The Board receives 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 to the Manager 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 can be found on the Henderson website, www.henderson.com/sites/henderson/responsibleinvestment.aspx

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 on Tuesday 14 May 2013 at 12.00 noon at the Company's registered office. Separate resolutions will be proposed for each substantive issue. The formal notice as well as full details of the resolutions to be put at the AGM are contained in the separate circular being sent to shareholders with this report.

The directors seek annual authority from the shareholders to allot new ordinary shares, to disapply the pre-emption rights of existing shareholders, and to buy back for cancellation or to be held in treasury the Company's ordinary shares. At the AGM in May 2012 the directors were granted authority to buy back up to 13,570,558 ordinary shares. At 31 December 2012 and also at the date of this report, this authority has not been used and the directors therefore have remaining authority to buy back up to 13,570,558 ordinary shares; this authority will expire at the conclusion of the AGM in May 2013.

Following the introduction of new investment trust tax rules it is now possible for investment trust companies to distribute capital profits by way of dividend. Therefore a resolution is proposed at the AGM to enable the Company to take advantage of the added flexibility allowed by these new tax rules. However, the Board has no intention at the current time to distribute capital profits as dividends, but believe that it is in shareholders' best interests for the Board to have this power should circumstances warrant it in the future.

DIRECTORS' STATEMENT AS TO DISCLOSURE OF INFORMATION TO THE AUDITOR

The directors who were members of the Board at the time of approving this Report are listed on page 11. All of those directors confirm that:

- to the best of their knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditor is unaware; and
- they have taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditor is aware of that information.

By order of the Board

David Rice ACIS
For and on behalf of Henderson Secretarial Services Limited
Secretary
27 March 2013

Directors' Remuneration Report

Introduction

This report is submitted in accordance with Sections 420-422 of the Companies Act 2006. The report also meets the relevant Listing Rules of the Financial Services Authority and describes how the Board has applied the principles relating to directors' remuneration. As required by Section 439 of the Act, a resolution to approve the report will be proposed at the AGM. The Company's auditor is required to report on certain information contained within this report. Where information set out below has been audited, it is indicated as such.

Remuneration policy

The Board as a whole considers directors' remuneration. Accordingly a committee to consider matters relating to directors' remuneration has not been appointed. The Board has not been provided with advice or services by any person in respect of its consideration of directors' remuneration.

Directors are remunerated in the form of fees, payable quarterly in arrears, to the director personally or to a third party specified by that director. There are no long-term incentive schemes, share option schemes or pension arrangements and the fees are not specifically related to the directors' performance, either individually or collectively. 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 the Chairman of the Audit Committee to be paid higher fees than the other directors in recognition of their more onerous roles. The current annual rates of fees paid to the members of the Board are: Chairman £30,750; Chairman of the Audit Committee £24,600; and directors £20,500. The policy is to review these rates annually, although such review will not necessarily result in any change to the rates. The actual amounts paid to the directors during the financial year under review are as shown in the table in the following column.

No other remuneration or compensation was paid or payable by the Company during the year to any of the current or former directors. No expenses were claimed or paid during the year.

None of the directors has a contract of service and a director may resign by notice in writing to the Board at any time: there are no notice periods. Directors' and officers' liability insurance cover is held by the Company in respect of the directors.

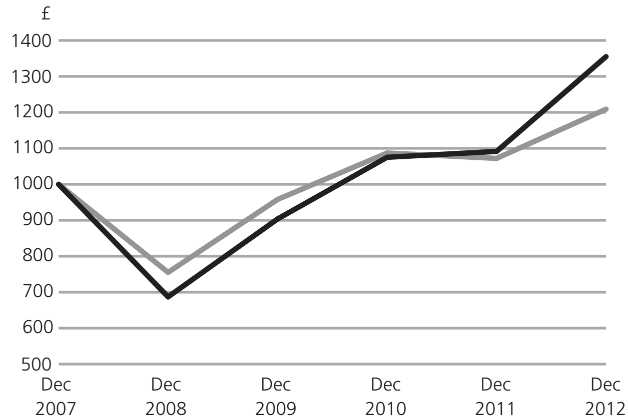
Amount of each Director's Emoluments (audited)

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

	2012 £	2011 £
Vivian Bazalgette	**20,250**	19,500
Andrew Bell	**20,250**	19,500
Margaret Littlejohns	**20,250**	19,500
Anthony Newhouse	**20,250**	19,500
Hugh Twiss[1]	**30,375**	29,250
Janet Walker[2]	**24,300**	23,400
TOTAL	**135,675**	130,650

[1] Chairman
[2] Chairman of the Audit Committee

Share Price Performance graph



Henderson High Income Trust ordinary share price total return, assuming an investment of £1,000 on 31 December 2007 and the reinvestment of all dividends (excluding dealing expenses) (Source: Morningstar for the AIC).

The total return of a composite of 80% of the FTSE All-Share Index and 20% of the Merrill Lynch Sterling Non Gilts Index (the Company's benchmark), assuming the notional investment of £1,000 on 31 December 2007 and the reinvestment of all income (excluding dealing expenses) (Source: Datastream).

The graph compares the Company's performance for the past five years against its current benchmark.

By order of the Board

David Rice ACIS
For and on behalf of
Henderson Secretarial Services Limited
Secretary
27 March 2013

Statement of Directors' Responsibilities

in respect of the Annual Report, the Directors' Remuneration Report and the Financial Statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have chosen to prepare financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the profit or loss of the Company for that period. In preparing these 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;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Statement under DTR 4.1.12

To the best of our knowledge:

a) the financial statements, prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the Company; and

b) the Report of the Directors and the Financial Statements includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that it faces.

For and on behalf of the Board
Hugh Twiss
Chairman
27 March 2013

The financial statements are published on www.hendersonhighincome.com which is a website maintained by the Company's Manager, Henderson Global Investors Limited ("Henderson").

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

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

Independent Auditor's Report

to the members of Henderson High Income Trust plc

Independent auditor's report to the members of Henderson High Income Trust plc

We have audited the financial statements of Henderson High Income Trust plc for the year ended 31 December 2012 which comprise the Income Statement, Reconciliation of Movements in Shareholders' Funds, Balance Sheet, Cash Flow Statement and the related Notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities on page 25, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 and of its net return for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules, we are required to review:

- the directors' statement on page 14 in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to the shareholders by the Board on directors' remuneration.

Julian Bartlett
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
27 March 2013

Income Statement

for the year ended 31 December 2012

Notes		Year ended 31 December 2012 Revenue return £'000	Capital return £'000	Total £'000	Year ended 31 December 2011 Revenue return £'000	Capital return £'000	Total £'000
2	Gains/(losses) on investments held at fair value through profit or loss	**–**	**16,090**	**16,090**	–	(3,066)	(3,066)
3	Income from investments held at fair value through profit or loss	**8,540**	**–**	**8,540**	8,407	–	8,407
4	Other interest receivable and similar income	**196**	**–**	**196**	297	–	297
	Gross revenue and capital gains/(losses)	**8,736**	**16,090**	**24,826**	8,704	(3,066)	5,638
5	Management and performance fees	**(274)**	**(1,476)**	**(1,750)**	(262)	(1,543)	(1,805)
6	Other administrative expenses	**(321)**	**–**	**(321)**	(338)	–	(338)
	Net return/(loss) on ordinary activities before finance costs and taxation	**8,141**	**14,614**	**22,755**	8,104	(4,609)	3,495
7	Finance costs	**(145)**	**(436)**	**(581)**	(213)	(638)	(851)
	Net return/(loss) on ordinary activities before taxation	**7,996**	**14,178**	**22,174**	7,891	(5,247)	2,644
8	Taxation on net return on ordinary activities	**(233)**	**227**	**(6)**	(310)	294	(16)
	Net return/(loss) on ordinary activities after taxation	**7,763**	**14,405**	**22,168**	7,581	(4,953)	2,628
9	**Return/(loss) per ordinary share**	**8.44p**	**15.67p**	**24.11p**	8.48p	(5.54)p	2.94p

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

Reconciliation of Movements in Shareholders' Funds

for the year ended 31 December 2012

Year ended 31 December 2012	**Called up share capital £'000**	**Share premium account £'000**	**Capital redemption reserve £'000**	**Other capital reserves £'000**	**Revenue reserve £'000**	**Total £'000**
At 31 December 2011	**4,485**	**61,462**	**26,302**	**13,166**	**3,455**	**108,870**
Net return on ordinary activities after taxation	**–**	**–**	**–**	**14,405**	**7,763**	**22,168**
Issue of new shares	**349**	**8,924**	**–**	**–**	**–**	**9,273**
Fourth interim dividend (2.075p per share) for the year ended 31 December 2011 paid 31 January 2012	**–**	**–**	**–**	**–**	**(1,861)**	**(1,861)**
First interim dividend (2.075p per share) for the year ended 31 December 2012 paid 30 April 2012	**–**	**–**	**–**	**–**	**(1,869)**	**(1,869)**
Second interim dividend (2.075p per share) for the year ended 31 December 2012 paid 31 July 2012	**–**	**–**	**–**	**–**	**(1,883)**	**(1,883)**
Third interim dividend (2.075p per share) for the year ended 31 December 2012 paid 31 October 2012	**–**	**–**	**–**	**–**	**(1,938)**	**(1,938)**
Refund of unclaimed dividends	**–**	**–**	**–**	**–**	**4**	**4**
At 31 December 2012	**4,834**	**70,386**	**26,302**	**27,571**	**3,671**	**132,764**

Year ended 31 December 2011	Called up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
At 31 December 2010	4,448	60,562	26,302	18,119	3,281	112,712
Net (loss)/return on ordinary activities after taxation	–	–	–	(4,953)	7,581	2,628
Issue of new shares	37	900	–	–	–	937
Third interim dividend (2.075p per share) for the year ended 31 December 2010 paid 31 January 2011	–	–	–	–	(1,846)	(1,846)
First interim dividend (2.075p per share) for the year ended 31 December 2011 paid 28 April 2011	–	–	–	–	(1,851)	(1,851)
Second interim dividend (2.075p per share) for the year ended 31 December 2011 paid 29 July 2011	–	–	–	–	(1,851)	(1,851)
Third interim dividend (2.075p per share) for the year ended 31 December 2011 paid 31 October 2011	–	–	–	–	(1,861)	(1,861)
Refund of unclaimed dividends	–	–	–	–	2	2
At 31 December 2011	4,485	61,462	26,302	13,166	3,455	108,870

The notes on pages 31 to 45 form part of these financial statements

Balance Sheet

at 31 December 2012

Notes		2012 £'000	2011 £'000
10	**Investments held at fair value through profit or loss**	**157,097**	136,388
	Current assets		
11	Debtors	**1,384**	1,703
	Cash at bank	**3,250**	682
		4,634	2,385
12	**Creditors:** amounts falling due within one year	**(28,967)**	(29,903)
	Net current liabilities	**(24,333)**	(27,518)
	Total assets less current liabilities	**132,764**	108,870
	Capital and reserves		
14	Share capital	**4,834**	4,485
15	Share premium account	**70,386**	61,462
15	Capital redemption reserve	**26,302**	26,302
15	Other capital reserves	**27,571**	13,166
15	Revenue reserve	**3,671**	3,455
	Equity shareholders' funds	**132,764**	108,870
16	**Net asset value per ordinary share**	**137.32p**	121.36p

The financial statements were approved by the directors on 27 March 2013, and signed on their behalf by:

Hugh Twiss

Chairman

The notes on pages 31 to 45 form part of these financial statements

Cash Flow Statement

for the year ended 31 December 2012

Notes		2012 £'000	2012 £'000	2011 £'000	2011 £'000
18	**Net cash inflow from operating activities**		**6,810**		7,770
	Servicing of finance				
	Bank overdraft and loan interest paid		**(564)**		(847)
	Taxation				
	Tax recovered		**13**		28
	Financial investment				
	Purchases of investments	**(26,517)**		(32,351)	
	Sales of investments	**21,674**		31,699	
	Net cash outflow from financial investment		**(4,843)**		(652)
	Equity dividends paid		**(7,547)**		(7,407)
	Net cash outflow before financing		**(6,131)**		(1,108)
	Financing				
	Issue of shares	**9,273**		937	
	Repayment of loans	**(671)**		(2,314)	
	Net cash inflow/(outflow) from financing		**8,602**		(1,377)
19	**Increase/(decrease) in cash in the year**		**2,471**		(2,485)
	Reconciliation of net cash flow to movement in net debt				
	Increase/(decrease) in cash as above		**2,471**		(2,485)
	Cash outflow from repayment of loans		**671**		2,314
	Exchange movements		**97**		(60)
	Movement in net debt		**3,239**		(231)
	Net debt at 1 January		**(27,518)**		(27,287)
19	**Net debt at 31 December**		**(24,279)**		(27,518)

The notes on pages 31 to 45 form part of these financial statements

Notes to the Financial Statements

1 Accounting policies

(a) Basis of accounting

The financial statements have been prepared on the historical cost basis except for the measurement at fair value of investments. The financial statements have been prepared in accordance with applicable UK accounting standards and with the Statement of Recommended Practice *Financial Statements of Investment Trust Companies and Venture Capital Trusts* ("the SORP") dated January 2009. All of the Company's operations are of a continuing nature.

(b) Going concern

The assets of the Company consist of securities that are readily realisable and, accordingly, the directors believe that the Company has adequate resources to continue in operational existence for the foreseeable future. Therefore, the Board has determined that it is appropriate for the financial statements to be prepared on a going concern basis.

(c) Valuation of investments

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

– UK listed investments are valued at quoted bid prices.

– Investments listed overseas are valued at bid prices (where a bid price is available) or otherwise at fair value based on published price quotations.

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

(d) Capital gains and losses

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

(e) Income

Dividends receivable from equity shares are taken to the income statement on an ex-dividend basis. Income from fixed interest debt securities and preference shares with no fixed maturity date is recognised on a time-apportionment basis. Income from other fixed interest securities is recognised so as to reflect the effective interest rate on these securities. In accordance with FRS 16 – Current Taxation, franked investment income is shown net of the related tax credits.

(f) Expenses

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

Notes to the Financial Statements

continued

1 Accounting policies (continued)

(g) Taxation

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

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

(h) Foreign currency

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

(i) Bank borrowings

Interest-bearing bank loans and overdrafts are recorded as proceeds received, net of direct issue costs. Finance costs, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the income statement, using the effective interest 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) Derivative financial instruments

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

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

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

Notes to the Financial Statements
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2	Gains/(losses) from investments held at fair value through profit or loss	2012 £'000	2011 £'000
	(Losses)/gains on sale of investments based on historical cost	**(3,150)**	2,125
	Less: revaluation losses/(gains) recognised in previous years	**3,906**	(1,846)
	Gains on investments sold in the year based on carrying value at the previous balance sheet date	**756**	279
	Net movement on revaluation of investments	**15,237**	(3,285)
	Exchange gains/(losses)	**97**	(60)
		16,090	(3,066)

3	Income from investments held at fair value through profit or loss	2012 £'000	2011 £'000
	Franked:		
	Listed – dividends	**5,548**	5,361
	Unfranked:		
	Listed – interest income	**1,371**	1,516
	– dividend income	**1,621**	1,530
		2,992	3,046
		8,540	8,407

4	Other interest receivable and similar income	2012 £'000	2011 £'000
	Bank interest	**1**	2
	Underwriting commission	**36**	–
	Option premium income	**159**	295
		196	297

5	Management and performance fees	2012 Revenue return £'000	2012 Capital return £'000	2012 Total £'000	2011 Revenue return £'000	2011 Capital return £'000	2011 Total £'000
	Management fee	**274**	**411**	**685**	262	394	656
	Performance fee	**–**	**1,065**	**1,065**	–	1,149	1,149
		274	**1,476**	**1,750**	262	1,543	1,805

A summary of the terms of the management agreement is given on page 15 in the Report of the Directors. An explanation of the split between revenue and capital is contained in accounting policy 1(f) on page 31. A performance fee of £1,065,000 was earned during the year (2011: £1,149,000).

Notes to the Financial Statements

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6	**Other administrative expenses (including irrecoverable VAT)**	**2012 £'000**	2011 £'000
	Directors' fees (see Directors' Remuneration Report on page 24)	**136**	131
	Auditor's remuneration (excluding VAT)	**23**	21
	Sales and marketing expenses payable to the management company	**52**	49
	Other expenses	**110**	137
		321	338

7	**Finance costs**	**2012 £'000**	2011 £'000
	On bank loans and overdrafts repayable within one year	**581**	851
	Less: allocated to capital	**(436)**	(638)
		145	213

8	**Taxation on net return on ordinary activities**	**2012 Revenue return £'000**	**2012 Capital return £'000**	**2012 Total £'000**	2011 Revenue return £'000	2011 Capital return £'000	2011 Total £'000
8.1	Irrecoverable overseas tax	**6**	**–**	**6**	16	–	16
	Tax relief on expenses charged to capital	**227**	**(227)**	**–**	294	(294)	–
	Tax charge in respect of the current year	**233**	**(227)**	**6**	310	(294)	16

Notes to the Financial Statements

continued

8 Taxation on net return on ordinary activities (continued)

8.2 The tax charge for the year is lower than the 24.5% effective rate of corporation tax in the UK for the year ended 31 December 2012 (2011: 26.5%). The differences are explained below.

	2012 Revenue return £'000	**2012 Capital return £'000**	**2012 Total £'000**	2011 Revenue return £'000	2011 Capital return £'000	2011 Total £'000
Net return/(loss) on ordinary activities before taxation	**7,996**	**14,178**	**22,174**	7,891	(5,247)	2,644
Theoretical tax at UK corporation tax rate of 24.5% (2011: 26.5%)	**1,959**	**3,474**	**5,433**	2,091	(1,390)	701
Effects of:						
– UK dividends which are not taxable	**(1,359)**	**–**	**(1,359)**	(1,420)	–	(1,420)
– Non-taxable overseas dividends	**(385)**	**–**	**(385)**	(389)	–	(389)
– Increase/(decrease) in excess management expenses and finance costs	**–**	**241**	**241**	(1)	284	283
– Expenses not deductible for tax purposes	**12**	**–**	**12**	13	–	13
– Irrecoverable overseas tax suffered	**6**	**–**	**6**	16	–	16
– (Gains)/losses on investments held at fair value	**–**	**(3,942)**	**(3,942)**	–	812	812
Tax charge in respect of the current year	**233**	**(227)**	**6**	310	(294)	16

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

8.3 Factors that may affect future tax charges

The Company has expenses in excess of taxable income of £6,154,000 (2011: £5,164,000) that are available to offset future taxable revenue. A deferred tax asset of £1,414,000 (2011: £1,265,000) has not been recognised in respect of those expenses and will be recoverable only to the extent that the Company has sufficient future taxable revenue.

Notes to the Financial Statements

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9 Return per ordinary share

The return per ordinary share figure is based on the gains attributable to the ordinary shares of £22,168,000 (2011: £2,628,000) and on the 91,953,053 weighted average number of ordinary shares in issue during the year (2011: 89,395,675).

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

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

	2012 £'000	2011 £'000
Net revenue return	**7,763**	7,581
Net capital return/(loss)	**14,405**	(4,953)
Net total return	**22,168**	2,628
Weighted average number of ordinary shares in issue during the year	**91,953,053**	89,395,675
	Pence	Pence
Revenue return per ordinary share	**8.44**	8.48
Capital return/(loss) per ordinary share	**15.67**	(5.54)
Total return per ordinary share	**24.11**	2.94

10 Investments held at fair value through profit or loss

	2012 £'000	2011 £'000
Valuation at 1 January	**136,388**	138,636
Investment holding gains at 1 January	**(5,839)**	(10,864)
Cost at 1 January	**130,549**	127,772
Purchases at cost	**26,517**	32,351
Sales at cost	**(24,907)**	(29,574)
Cost at 31 December	**132,159**	130,549
Investment holding gains at 31 December	**24,938**	5,839
Valuation at 31 December	**157,097**	136,388

Total transaction costs amounted to £83,000 (2011: £143,000) of which purchase transaction costs for the year to 31 December 2012 were £73,000 (2011: £116,000). Sale transaction costs for the year to 31 December 2012 were £10,000 (2011: £27,000). These comprise mainly stamp duty (purchases only) and commission.

Notes to the Financial Statements

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11	**Debtors**	**2012 £'000**	2011 £'000
	Taxation recoverable	**82**	84
	Prepayments and accrued income	**1,302**	1,619
		1,384	1,703

12	**Creditors:** amounts falling due within one year	**2012 £'000**	2011 £'000
	Derivative instruments – written options	**–**	106
	Bank loans and overdrafts	**27,529**	28,200
	Accruals	**1,438**	1,597
		28,967	29,903

The Company has a one year multi-currency loan facility of £41,000,000 with Scotiabank (2011: ING Bank NV) which commenced on 1 April 2012. At 31 December 2012 the Company had short-term multi-currency loans under the Scotiabank loan facility amounting to £27,529,000, repayable in January and February 2013 (2011: £28,200,000, repayable in March 2012). The average interest rate payable on these loans was 1.33% (2011: 2.43%).

13 Risk management policies and procedures

As an investment trust the Company invests in equities and other investments for the long term so as to secure its investment objective and policy as stated on pages 12 and 13. In pursuing its investment objective and policy, the Company is exposed to a variety of risks that could result in either a reduction in the Company's net assets or a reduction in the profits available for distribution by way of dividends.

These risks – market risk (comprising currency risk, interest rate risk and other price risk), liquidity risk and credit and counterparty risk – and the directors' approach to the management of them are set out below. The Board and the Portfolio Manager coordinate the Company'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, have not changed from the previous accounting period.

13.1 Market risk

The fair value of a financial instrument held by the Company may fluctuate due to changes in market prices. This market risk comprises currency risk (see note 13.1.1), interest rate risk (see note 13.1.2) and other price risk, in particular the risk of fluctuations in prices of securities (see note 13.1.3). The Board reviews and agrees policies for managing these risks and agrees investment guidelines and restrictions for managing the portfolio; these have remained substantially unchanged from those applying in the previous year. The Portfolio 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. This risk is mitigated through diversification of investments in the portfolio.

Notes to the Financial Statements

continued

13 Risk management policies and procedures (continued)

13.1.1 Currency risk

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

13.1.2 Interest rate risk

Interest rate movements may affect:

– the fair value of investments in fixed interest securities

– the level of income receivable from interest-bearing securities and cash at bank and on deposit

– the interest payable on the Company's variable rate borrowings.

Management of the risk

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

Interest rate exposure

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

– floating interest rates: when the interest rate is due to be re-set

– fixed interest rates: when the financial instrument is due for repayment. These dates are shown on page 8.

	2012 Within one year £'000	**2012 More than one year £'000**	**2012 Total £'000**	2011 Within one year £'000	2011 More than one year £'000	2011 Total £'000
Exposure to floating interest rates:						
Cash at bank	**3,250**	**–**	**3,250**	682	–	682
Creditors – within one year:						
Borrowings under multi-currency loan facility	**(27,529)**	**–**	**(27,529)**	(28,200)	–	(28,200)
	(24,279)	**–**	**(24,279)**	(27,518)	–	(27,518)
Exposure to fixed interest rates:						
Investments held at fair value through profit or loss	**482**	**21,986**	**22,468**	–	21,315	21,315
Total exposure to interest rates	**(23,797)**	**21,986**	**(1,811)**	(27,518)	21,315	(6,203)

Notes to the Financial Statements
continued

13 Risk management policies and procedures (continued)

13.1.2 Interest rate risk (continued)

Interest receivable and finance costs are at the following rates:

– interest received on cash balances, or paid on bank overdrafts, is at a margin linked to LIBOR or its foreign currency equivalent (2011: same)

– interest paid on borrowings under the multi-currency loan facility is at a margin over LIBOR or its foreign currency equivalent for the type of loan. The weighted average interest rate of these was 1.33% at 31 December 2012 (2011: 2.43%)

– the nominal interest rates on the investments held at fair value through profit or loss are shown on page 8. The weighted average interest rate on these investments is 6.46% (2011: 7.76%).

Interest rate risk sensitivity

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

– loan sensitivity: Borrowings vary throughout the year as a result of the Board's borrowing policy. Borrowings at the year end were £27,529,000 (2011: £28,200,000) (note 12) and if that level of borrowings were maintained for a full year, then a 100 basis points change in LIBOR (up or down) would decrease or increase total net return on ordinary activities after taxation by approximately £275,000 (2011: £282,000).

– fixed interest investment sensitivity: The Company's fixed interest portfolio at the year end was valued at £22,468,000 (2011: £21,315,000), and it had a modified duration (interest rate sensitivity) of approximately 5.4 years (2011: 6.5 years). A 100 basis points change in short term interest rates (up or down), which is mirrored by an equivalent change in long term interest rates, would be expected to decrease or increase this portfolio's value by approximately £1,213,000 (2011: £1,385,000), all other factors being equal.

13.1.3 Other price risk

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

Management of the risk

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

When appropriate, the Company may buy/sell put or call options or futures on indices and on equity investments in its portfolio to manage its exposure to price risk or to generate income. At 31 December 2012 the Company had no open positions (2011: open positions with a negative value of £106,000).

Notes to the Financial Statements

continued

13 Risk management policies and procedures (continued)

13.1.3 Other price risk (continued)

Concentration of exposure to other price risks

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

Other price risk sensitivity

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

	2012 10% increase in fair value £'000	**2012 10% decrease in fair value £'000**	2011 10% increase in fair value £'000	2011 10% decrease in fair value £'000
Income statement – net return after tax				
Revenue return	**(23)**	**23**	(20)	20
Capital return	**15,655**	**(15,655)**	13,580	(13,580)
Net return after tax for the year	**15,632**	**(15,632)**	13,560	(13,560)
Equity shareholders' funds	**15,632**	**(15,632)**	13,560	(13,560)

13.2 Liquidity risk

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

Management of the risk

Liquidity risk is not significant as the majority of the Company's assets are investments in quoted securities that are readily realisable. The Company has a multi-currency loan facility of £41,000,000 with Scotiabank (2011: £41,000,000 facility with ING Bank NV), due to expire on 31 March 2013, and an overdraft facility with the custodian, the extent of which is determined by the custodian on a regular basis by reference to the value of the securities held by it on behalf of the Company. A new two year multi-currency loan facility for £42,000,000 has been agreed with Scotiabank to commence on 28 March 2013.

Liquidity risk exposure

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

	2012 Due within three months £'000	2011 Due within three months £'000
Derivative instruments – written options	**–**	106
Bank loans and overdrafts (including accrued interest)	**27,581**	28,260
Other creditors and accruals	**1,438**	1,597
	29,019	29,963

Notes to the Financial Statements

continued

13 Risk management policies and procedures (continued)

13.3 Credit and counterparty risk

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

Management of the risk

The risk is managed as follows:

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

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

13.4 Fair values of financial assets and financial liabilities

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

13.5 Fair value hierarchy disclosures

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

Financial assets at fair value through profit or loss at 31 December 2012	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Equity investments	133,448	–	–	**133,448**
Convertibles	1,181	–	–	**1,181**
Fixed interest investments:				
Preference shares	2,374	–	–	**2,374**
Other	20,094	–	–	**20,094**
Total	157,097	–	–	**157,097**

Notes to the Financial Statements
continued

13 Risk management policies and procedures (continued)

13.5 Fair value hierarchy disclosures (continued)

Financial assets at fair value through profit or loss at 31 December 2011	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equity investments	113,911	–	–	113,911
Convertibles	1,162	–	–	1,162
Derivative instruments	(106)	–	–	(106)
Fixed interest investments:				
Preference shares	2,814	–	–	2,814
Other	18,501	–	–	18,501
Total	136,282	–	–	136,282

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

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

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

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 31.

There have been no transfers during the year between levels.

13.6 Capital management policies and procedures

The Company's capital management objectives are:

– to ensure that it will be able to continue as a going concern, and

– to provide investors with a high dividend income while also maintaining the prospect of capital growth.

The Company's capital is its equity share capital, reserves and debt that are shown in the balance sheet at a total of £160,293,000 (2011: £137,070,000).

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

– the planned level of gearing, which takes into account the Manager's view on the market

– the need to buy back equity shares, either for cancellation or to hold in treasury, which takes account of the difference between the net asset value per share and the share price (i.e. the level of share price discount)

– the need for new issues of equity shares, including sales from treasury

– the extent to which revenue in excess of that which is required to be distributed should be retained.

Notes to the Financial Statements

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13 Risk management policies and procedures (continued)

13.6 Capital management policies and procedures (continued)

The Company is subject to several externally imposed capital requirements:

– under the bank facility with Scotiabank borrowings may not exceed one third of adjusted total assets (as defined in the facility agreement) and net assets must be more than £50m

– as a public company, the Company has a minimum share capital of £50,000

– in order to be able to pay dividends out of profits available for distribution by way of dividends, the Company has to be able to meet one of the two capital retention tests imposed on investment companies by company law and cannot retain income of more than 15%.

The Company has complied with these requirements.

14 Share capital

	Shares entitled to dividend	Total shares in issue	Nominal value in issue £'000
Issued ordinary shares of 5p each			
At 31 December 2011	89,710,744	89,710,744	4,485
Issued during the year	6,970,000	6,970,000	349
At 31 December 2012	**96,680,744**	**96,680,744**	**4,834**

During the year the Company issued 6,970,000 shares for proceeds of £9,273,000.

Since the year end a further 1,575,000 shares have been issued for proceeds of £2,337,000.

15 Reserves

	Share premium account £'000	Capital redemption reserve £'000	Capital reserve arising on investments sold £'000	Capital reserve arising on revaluation of investments held £'000	Revenue reserve £'000
At 1 January 2012	61,462	26,302	7,433	5,733	3,455
Transfer on disposal of investments	–	–	(3,906)	3,906	–
Net gains from investments	–	–	693	15,300	–
Foreign exchange gains	–	–	97	–	–
Issue of shares	8,924	–	–	–	–
Management and performance fees and finance costs charged to capital	–	–	(1,912)	–	–
Tax relief thereon	–	–	227	–	–
Net revenue after tax for the year	–	–	–	–	7,763
Dividends paid	–	–	–	–	(7,551)
Refund of unclaimed dividends	–	–	–	–	4
At 31 December 2012	**70,386**	**26,302**	**2,632**	**24,939**	**3,671**

The revenue reserve is distributable by way of dividend.

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16 Net asset value per ordinary share

The net asset value per ordinary share is based on the net assets attributable to the ordinary shares of £132,764,000 (2011: £108,870,000) and on the 96,680,744 ordinary shares in issue at 31 December 2012 (2011: 89,710,744 ordinary shares).

17 Contingent liabilities

There were no partly paid shares or underwriting commitments at 31 December 2012 (2011: £nil).

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

	2012 £'000	2011 £'000
Net return before finance costs and taxation	**22,755**	3,495
(Gains)/losses on investments held at fair value through profit or loss	**(16,090)**	3,066
Increase in accrued income and debtors of a revenue nature	**339**	(125)
(Decrease)/increase in creditors	**(176)**	1,375
Tax deducted on investment income	**(18)**	(41)
Net cash inflow from operating activities	**6,810**	7,770

19 Analysis of changes in net debt

	1 January 2012 £'000	Cash flow £'000	Exchange movement £'000	31 December 2012 £'000
Cash at bank and overdrafts	682	2,471	97	**3,250**
Debt due within one year	(28,200)	671	–	**(27,529)**
	(27,518)	3,142	97	**(24,279)**

20 Related party transactions

The Company has appointed wholly-owned subsidiary companies of Henderson Global Investors Limited ("Henderson") to provide investment management, accounting, administration and company secretarial services. Details of the fee arrangements for these services are given on page 15 in the Report of the Directors. The total of the fees (management and performance fees) payable by the Company to Henderson in respect of the year ended 31 December 2012 was £1,750,000 (2011: £1,805,000) of which £1,234,000 was outstanding at 31 December 2012 (2011: £1,473,000).

In addition to the above services, Henderson provides the Company with sales and marketing services. The total fees payable for these services for the year ended 31 December 2012 (excluding VAT) amounted to £52,000 (2011: £41,000). At 31 December 2012, £26,000 was outstanding (2011: £10,000).

The compensation payable to key management personnel in respect of short term employment benefits was £136,000 (2011: £131,000). This relates wholly to the fees paid to the directors in respect of the year; the directors are all non-executive and receive no other compensation. The Directors' Remuneration Report on page 24 provides further details. The Company has no employees.

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21	**Dividends**	**£'000**
	Revenue available for distribution by way of dividend for the year	**7,763**
	First interim dividend (2.075p)	**(1,869)**
	Second interim dividend (2.075p)	**(1,883)**
	Third interim dividend (2.075p)	**(1,938)**
	Fourth interim dividend (2.075p) paid on 31 January 2013	**(2,006)**
	Undistributed revenue for section 1158 purposes	**66**

Warning to Shareholders

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

Please note that it is very unlikely that either the Company or the Company's Registrar, Computershare Investor Services PLC, would make unsolicited telephone calls to shareholders 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 the inside back cover.

Ten Year Record

Year to 31 December	Total net assets	Net asset value per ordinary share	Net asset value per unit	Market price per ordinary share	Market price per unit	Dividends per ordinary share/unit
2003†	£103.6m	114.6p	179.8p	106.0p	175.0p	9.90p
2004†	£110.7m	131.3p	201.8p	116.3p	186.8p	9.90p
2005	£106.6m	155.3p	–	153.8p	–	8.83p*
2006	£126.6m	181.7p	–	177.3p	–	7.91p*
2007	£142.6m	166.9p	–	147.8p	–	8.18p
2008	£87.8m	102.7p	–	95.0p	–	8.30p
2009	£100.8m	117.7p	–	114.5p	–	8.30p
2010	£112.7m	126.7p	–	124.8p	–	6.23p**
2011	£108.9m	121.4p	–	118.5p	–	8.30p
2012	**£132.8m**	**137.3p**	**–**	**138.3p**	**–**	**8.30p**

† Restated in accordance with new accounting policies.

* The level of dividends was reduced following the capital reorganisation in September 2005.

** Only three interim dividends were paid in respect of the year to 31 December 2010 as the 4th interim dividend was reclassified as the 1st interim dividend for the year to 31 December 2011 and paid in April 2011. In consequence, shareholders effectively received the same total dividend of 8.30p as in the previous year.

Explanation of Movement in Net Asset Value (total return) per Ordinary Share

Over the year to 31 December 2012, the Net Asset Value total return was 20.9% compared to the benchmark index total return (80% of the FTSE All-Share Index and 20% of the Merrill Lynch Sterling Non Gilts Index) of 12.5%.

Details of the portfolio performance are given below. Other factors accounting for the remainder of the difference between the opening and closing net asset value per share are share issuance and the proportions of the management and performance fees and finance costs charged to capital, as shown below. All data is geometrically compounded to calculate returns.

	Performance of Composite Index (total return)		**12.5%**
Portfolio performance	Performance of portfolio against benchmark		
	Due to asset allocation	-0.1%	
	Due to stock selection – Equities	4.3%	
	– Fixed interest	1.3%	
	Due to gearing	3.3%	
	Share issuance	0.4%	
Other factors	Fees and finance costs charged to capital	-1.7%	
	Performance of Net Asset Value (total return)		**20.9%**

General Shareholder Information

Release of results
The full year results were announced on 27 March 2013.
The half year results will be announced at the end of July.

Annual General Meeting
The AGM of Henderson High Income Trust plc will be held in London at 12.00 noon on Tuesday 14 May 2013. The notice of this meeting setting out the business that will be proposed is contained in a separate circular to be sent to shareholders with this Annual Report.

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

Share price listings
The market price of the Company's ordinary shares is published daily in the Financial Times, which also shows figures for the estimated net asset value and the discount/premium. Some of this information is published in other leading newspapers.

Keeping up to date with Henderson High Income

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

The Company's investment policy is designed for private investors in the UK (including retail investors), professionally-advised private clients and institutional investors who seek high income and the potential for capital growth from investment predominantly in UK equities and higher yielding fixed interest securities and are willing to accept the risks of exposure to these investments. Private investors may wish to consider consulting an independent financial adviser who specialises in shares and other securities before acquiring shares. Investors should be capable of evaluating the risks and merits of such an investment and should have sufficient resources to bear any loss that may result.

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

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Shareholders who hold their shares in certificated form can check their holdings with the Registrar, Computershare Investor Services PLC (**www.computershare.com**). Please note that to gain access to your details on this site you will need the holder reference number stated on the top left corner of your share certificate.

Disability Act
Copies of this Annual Report and Financial Statements 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, including Braille, audio tape or larger type as appropriate.

You can contact the Registrar, Computershare Investor Services PLC, which has installed textphones to allow speech and hearing-impaired people who have their own textphone to contact them directly, without the need for an intermediate operator. Specially trained operators are available during normal business hours to answer queries via this service.

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

Glossary of Terms

Ordinary shares
Confer certain rights to the holder as laid down in the Articles of Association. These include entitlements to any income distributions paid by the Company, to all undistributed net income if the Company is wound up, and voting rights. They rank for payment of capital after repayment of borrowings.

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

Net asset value
The value of the total assets less the liabilities. Liabilities for this purpose include both current and long-term liabilities. To calculate the net asset value per ordinary share, divide the net asset value by the number of shares in issue (excluding treasury shares).

The net asset value total return on ordinary shares over one year published by the Association of Investment Companies differs from the net asset value total return including net dividends reinvested calculated from the financial statements as a result of timing and methodology differences.

Discount
The amount by which the market price per share of an investment trust company is lower than the net asset value per share. The discount is normally expressed as a percentage of the net asset value per share.

Premium
The amount by which the market price per share of an investment trust company exceeds the net asset value per share. The premium is normally expressed as a percentage of the net asset value per share.

Gearing
The gearing percentage reflects the amount of borrowings (such as bank loans and overdrafts) the Company has used to invest in the market. The method of calculating gearing (net) is defined as the net current liabilities as a percentage of equity shareholders' funds.

Effective interest rate
The rate of interest applicable to a financial asset or liability taking into account all related cash flows from its acquisition to its redemption date.

A Brief History

The Company was launched in November 1989 with the name TR High Income Trust PLC. The share capital comprised ordinary shares of 25p each and subscription shares of 0.01p each, there being one subscription share for every five ordinary shares. In 1991 further shares of both classes were issued by way of a rights issue. The conversion of the subscription shares into ordinary shares was completed in 1996.

In March 1997 the Company changed its name to Henderson High Income Trust plc and announced proposals for a merger with Henderson Highland Trust plc. The merger, by means of a Scheme of Arrangement under Section 425 of the Companies Act 1985, became effective on 23 April 1997 and new ordinary shares of 25p each were issued to the former Highland shareholders.

On 16 August 2000 the Company's capital was reorganised. In place of the ordinary shares of 25p each in issue at 15 August 2000, shareholders received one ordinary share of 5p each in the Company and one zero dividend preference share of 50p each in a new subsidiary company, Henderson High Income Trust Securities plc.

On 30 September 2005 the Group's capital was reorganised. The zero dividend preference shares were repaid and the subsidiary company was placed in members' voluntary liquidation. The subsidiary was dissolved on 10 January 2008.

On 30 April 2007 the Company issued 16,147,946 shares to those shareholders of Martin Currie Income & Growth Trust plc who elected to roll over their shares into the Company.

Directors and other Information

Directors
Hugh Twiss (Chairman)
Vivian Bazalgette
Andrew Bell
Margaret Littlejohns
Anthony Newhouse
Janet Walker

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Registered Number
Registered as an investment company in England and Wales:
No. 2422514

Investment Manager
Henderson Global Investors Limited, authorised and regulated by the Financial Services Authority

Portfolio Manager: Alex Crooke
Deputy Portfolio Manager: David Smith

Secretary
Henderson Secretarial Services Limited,
represented by David Rice ACIS

ISIN/SEDOL number
The ISIN/SEDOL (Stock Exchange Daily Official List) code number is as follows GB0009580571/0958057.
The mnemonic is HHI

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