Henderson High Income Trust plc

Report and Accounts for the year ended 31 December 2006

Henderson High Income Trust plc

Invests in a prudently diversified selection of both well known and smaller companies to provide a high income stream and prospects of capital growth.

Investment strategy

Approximately three quarters of the Company's assets are invested in ordinary shares of listed companies with the balance in listed fixed interest stocks. The selection process seeks to identify companies with strong balance sheets and 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 to enhance returns.

Growth

The net asset value total return of the Company over the past five years is 103.3% (source: AIC Information Services Limited).

Independent board of directors

The directors, all of whom are independent of the Investment Manager, meet at least 6 times a year to consider investment strategy and monitor performance.

Highlights of the Year

Per ordinary share	31 December 2006	31 December 2005	Change %
Net asset value	**181.7p**	155.3p	+17.0
Market price	**177.3p**	153.8p	+15.3
Revenue return	**8.09p**	9.33p	-13.3
Annual dividend*	**7.91p**	8.83p	-10.4

Performance as determined by the AIC

Total return (with net dividends reinvested)	1 year %	3 years %	5 years %
Net asset value per ordinary share◆	23.2	95.7	103.3
Market price per ordinary share	20.5	103.5	102.1
FTSE All-Share Index	16.8	60.8	50.2
FTA Government All Stocks Index†	0.7	15.9	29.2

Source: AIC Information Services Limited.

†Source: Datastream, gross dividends reinvested.

◆Detailed attribution performance on page 44.

Performance Dividends

Net dividend yield at 31 December	2006 %	2005 %
Henderson High Income Trust plc*	**4.4**	5.7
FTSE All-Share Index†	**2.9**	3.0
FTA Government All Stocks Index†	**4.5**	4.1

†Source: Datastream.

Dividend Information and Payment Dates

A fourth interim dividend of 2.015p per ordinary share for the year ended 31 December 2006 will be paid on 30 April 2007 to shareholders registered on 30 March 2007. The shares will be quoted ex-dividend from 28 March 2007.

Details of the dividends paid during the year ended 31 December 2006 are given in the Reconciliation of Movements in Shareholders' Funds on page 27. The dividends in respect of 2007 are expected to be paid on the following dates:

First interim payable 31 July 2007
Second interim payable 31 October 2007
Third interim payable 31 January 2008
Fourth interim payable 30 April 2008

*Reduced dividend level following the Company's capital reorganisation in September 2005.

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Chairman's Statement

H J Twiss

I am delighted to be able to report that our first full year since we repaid our Zero Dividend Preference shares and reverted to a single share structure has been rewarded with excellent returns. The performance of both our assets and the share price has comfortably outperformed the market, and we have also announced an increase in our dividend payments.

Assets and Performance

As you will have seen on the earlier Highlights page, the total return growth of our net asset value (NAV) per ordinary share was 23.2% and that of the share price was 20.5%. This compares to a total return of the FTSE All-Share Index of only 16.8%. Our performance is even more encouraging when you consider that the total return on the FTA Government All Stocks bond index was a mere 0.7%; our own bond portfolio not only did better than its comparator index, but our equity portfolio more than made up for the lacklustre performance by bonds. The majority of the return this year came from capital, with the NAV per ordinary share rising 17.0% in capital terms, although income clearly contributed a useful return too. The shares have largely traded through the year on a small premium to their NAV.

It is pleasing that, in this my first annual report statement as your Chairman, I am able to report such good results, particularly since the position looked much less certain at the time of the last interim report. I would like to be able to claim the credit for this, but that quite rightly must go to our portfolio manager, Alex Crooke, who has continued to do an excellent job in managing our assets. He was assisted by Ben Lofthouse, who replaced James Henderson as our deputy manager during the year. I also wish to recognise the contribution that my fellow directors have made in providing sound advice and challenging the views of the manager to ensure that they were well founded.

I do not intend to steal the portfolio manager's thunder, so I will leave it to him to explain in his report how he achieved this performance and what has been going on in markets and the economy during the year. In any case he will explain it far more thoroughly and interestingly than I would.

Dividends

As highlighted above, we announced in November 2006 a 4% increase in our quarterly dividend payment to 2.015p, the first rise to the dividend since the repayment of the ZDPs. For those of you who are avid readers of the accounts, you may well find the figures confusing, as with the current accounting standards they now reflect the payments actually paid during the year, rather than, as before, the dividends announced. Therefore the 4% increase in quarterly dividends will be reflected in next year's accounts.

This increase reflects our confidence that we have sufficient revenue reserves to act as a buffer for any likely setbacks in the future, and that the dividends paid by our underlying portfolio investments are and should continue to grow in the foreseeable future. We will review the level of the dividend again later in the year and I hope that we will again be able to consider a further increase, conditions permitting.

Size of the Company

Your Board held a strategy meeting with our manager and advisors last year at which we reviewed and discussed in depth the Company and its objectives and how best to achieve them. One of the decisions which came out of that meeting was that it would be beneficial for the Company to be larger in size and have a broader shareholder base. This should improve the liquidity of the shares and, very importantly, reduce our Total Expense Ratio by spreading the fixed costs over a larger asset base. We therefore decided to look for opportunities to achieve this and I am delighted to report, as already announced, that we have been chosen to act as a roll-over option for shareholders of Martin Currie Income and Growth Investment Trust plc which will be

Chairman's Statement
continued

winding up in May. We are being supported in achieving this by our managers, Henderson Global Investors, who are making a financial contribution to help us ensure that there is no uncovered cost to our shareholders. The transaction will not be dilutive to our shareholders and you will receive a circular with this report concerning the issue of new shares. This will require an extraordinary general meeting of the Company to be held on 19 April 2007. Full details are contained in the circular. We will continue to look for similar opportunities in the future and pursue them if we consider that they will benefit our Company.

Board and other Matters

At the conclusion of the AGM in May, Sir John Stanley will retire as a director of the Company. He has been on this Board and that of one of the forerunner trusts for almost 18 years. During this time he has served the Company well, tirelessly and doggedly carrying out his duties and looking after the best interests of the shareholders. I suggest that it is no exaggeration to say he will be greatly missed. We have already started the process of looking for a replacement. I hope that as many of you as are able will come to the AGM on Tuesday 15 May, when you will have the opportunity to be updated by our portfolio manager and to meet me and other members of the Board, as well as to say goodbye to Sir John in person. I look forward to welcoming you.

As I reported in my interim statement, we have appointed new auditors, RSM Robson Rhodes LLP, and they have quickly and efficiently taken on the role. They will, of course, be at the AGM when shareholders will be asked to approve their appointment. This change came about as a result of our corporate governance process which, as a Board, we take very seriously. There has been a substantial increase in the number of matters which the Board must take account of in this area and there will be more in the next few years. Not all of it is necessarily completely relevant to a company like ours and it undoubtedly leads to longer and not always necessarily clearer annual reports. We will always try to make it as clear as possible, but this sometimes defeats even the most clear headed of us. So please be warned, expect more in future and, therefore, allow more time to read and digest the annual report as I know so many of you diligently do.

Outlook

The portfolio manager in his report gives you his view on the future for the stockmarket and the outlook for the Company. I was quite cautious in my interim statement about the second half of last year and was proved very wrong. Although there were particular circumstances at the time which are not present in the same way now, I have been around long enough to know that markets do not go up for ever without the occasional setback (usually a wonderful opportunity to invest more money), and that in the immortal words of Donald Rumsfeld, it is "the known unknowns" that we need to be most worried about. Having said that and hoping that Donald Rumsfeld's clearly appalling record in the area of 'known unknowns' does not befall me too, I remain cautiously optimistic for the medium to longer term, but recognise that it will not all be plain sailing. However, I am confident that we have the right structure to allow us to have the flexibility to cope with changing market conditions and a portfolio manager who has proven himself more than equal to the task.

H J Twiss, Chairman
6 March 2007

Investment Review

A A Crooke

Investment Policy and Process

Our investment process has been consistent over many years, the aim being to achieve steady long-term performance through stock picking by utilising economic, industry specific and quantitative research available through the resources of Henderson Global Investors.

Investments are selected with an eye to the long-term value and the growth prospects of the business. The very best opportunities are often found when a company is out of favour and credit is not given for a change in its fortunes, but these do not come up all that often. The portfolio is diverse, having over 100 investments, which reflects our value-based investment approach and patience with regard to positions appreciating. A diverse portfolio also ensures that no single holding puts at risk the sustainability of the income generated by the portfolio.

The shares held in the portfolio are chosen for their combination of both income and growth prospects. The Investment Manager is charged to deliver a sustainable stream of income that can grow over time, while at the same time seeking to increase the net assets of the Company. The portfolio contains a mixture of both bonds and equities, which have over time proved to deliver a high level of income and long-term growth. The portfolio is structured to reflect the broad mix of companies within the UK stock market, without dominant exposure to any one economic sector.

Review of the Year to 31 December 2006

The UK stock market delivered another satisfactory year, with the return of the FTSE All-Share Index rising 16.8%, with dividends reinvested. This was the fourth year in the last five when the market has returned double digit growth. The performance of the Company's portfolio delivered a better return, with the total return per ordinary share rising 23.2%, again with dividends reinvested.

Overall there was little economic stimulus for the UK economy. Some commentators termed the environment as being in a Goldilocks scenario: conditions were neither too hot, nor too cold. House prices continued their upward climb which boosted investor confidence and allowed more equity to be withdrawn from the housing market to be spent elsewhere. Interest rates were increased twice, rising from

The 10 largest equity investments at 31 December 2006 were:

Position	Company	Sector	**Fair value 2006 £'000**	Fair value 2005 £'000	**Percentage of portfolio 2006**	Percentage of portfolio 2005
1	BT	Telecommunications	**5,066**	3,743	**3.3%**	2.6%
2	HSBC	Financials	**5,037**	2,155	**3.2%**	1.5%
3	BP	Oil & Gas	**4,313**	3,652	**2.8%**	2.6%
4	Galliford Try	Industrials	**3,719**	2,024	**2.4%**	1.4%
5	Scottish & Southern Energy	Utilities	**3,683**	2,403	**2.4%**	1.7%
6	Royal Bank of Scotland	Financials	**3,647**	1,457	**2.3%**	1.0%
7	Old Mutual	Financials	**3,336**	3,566	**2.1%**	2.5%
8	Prodesse Investment	Financials	**3,288**	1,551	**2.1%**	1.1%
9	Land Securities	Financials	**3,119**	2,233	**2.0%**	1.6%
10	Imperial Tobacco	Consumer Goods	**3,015**	–	**1.9%**	–

Investment Review
continued

4.5% to 5% at the year end, to counter inflation which climbed steadily throughout the year. The inflation numbers were driven principally by energy and fuel rises, but rises in food prices also contributed. Overall the Bank of England felt that only modest tightening of monetary policy was required and they are forecasting that inflation should moderate into 2007, back towards their 2% target.

The trends within the stock market were very similar to the previous year. Takeovers by companies and private equity funds continued to ignite certain sectors and investors were falling over themselves to locate the next bid target. Property seemed to be the common theme in terms of where equity investors were under-pricing companies and a revaluation by selling or splitting off the property assets underlined most deals. Elsewhere mining and commodities hit a brick wall in the spring which brought the whole market back and, while the Index recovered, the mining shares never regained lost ground. Corporate profits and margins continued to rise, allowing companies to increase share buyback programmes and dividend growth. All these factors helped to keep a lid on valuations, with the overall market valuation rising only a little despite higher share prices. Underlying this though, there has been a considerable shift in sector valuations with cyclicals trading at historically high valuations while oils and pharmaceuticals are at a discount.

Turning to our own performance, clearly the gearing of the portfolio has benefited returns to shareholders, with the cost of borrowing much lower than the appreciation of share prices. At the start of the year gearing was 36%, which equates to an equity gearing of 7.5% if the bond portfolio is netted against the bank borrowings. By the year end we had reduced gearing to 27% or an equity gearing of 4.0%. This is a more conservative position and reflects the view that share prices have risen considerably over recent years and we wish to maintain a more neutral outlook. We continue to find interesting companies that we believe are undervalued but the number of such opportunities is lower than in the past.

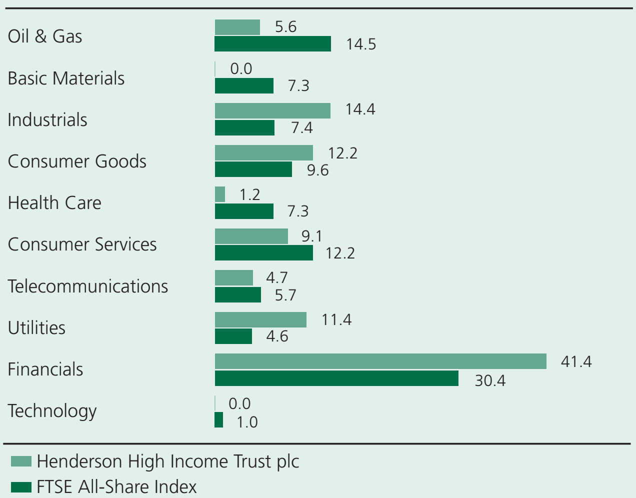
The remaining factor behind our good performance was the stock selection. We were fortunate to own few stocks that disappointed and furthermore we had very light exposure to the dullest sectors of the market such as Pharmaceuticals and Oil & Gas. The positives were retaining bigger positions in sectors such as Construction, Food Producers and Property which were very beneficial to performance. Of particular note stock-wise were the holdings of **Galliford Try** and **McCarthy & Stone** (both house builders), **Great Portland** (property) and **Gallaher** (tobacco), all of which rose materially through the year.

Portfolio Activity

Our portfolio activity has been fairly light in previous years, partly due to our longer investment horizon but equally because the stocks and themes favoured by investors have remained the same. We have been forced to be more active this year by a number of our holdings being bid for and because the remaining pockets of value in the UK market are amongst the smaller and very largest companies. A quick glance at our top 10 positions shows a marked change from last year; only four stocks remain in the top 10. The six new names have risen by a combination of appreciation and net new investment and we hope that these positions will be the drivers of performance over the next few years.

We have mentioned in the past that our investment style, with its concentrations on dividends and cash generation, is ideally positioned to benefit from the current takeover wave and this was demonstrated again in 2006. Overall, eight of our holdings were subject to takeovers, covering over 10% of the equity portfolio. Examples included **BAA**, **Gallaher**, **McCarthy & Stone**, **Pilkington** and **Eircom**. The scale of these deals presented problems in the sense of positions, once bid for, yielding little better than cash-like returns while the market was rising. As such, we took a more aggressive position of selling holdings before deals were declared unconditional, in order to maintain active positions (a good example being **Gallaher**). Once the company had accepted a bid from Japan Tobacco, we saw little prospect of competing bids and sold the position to reinvest into **Imperial Tobacco**. The subsequent performance of **Imperial Tobacco** has vindicated this decision. We expect the current level of takeovers to continue, as private equity investors have access to and continue to raise substantial funds. We also expect the overall size of transactions to rise, as investors pool their capital to take over bigger, previously untouchable companies.

Sector Analysis of the Equity Portfolio at 31 December 2006



Source: Henderson Global Investors

Investment Review

continued

In recent years we have maintained a low exposure to banks, despite their healthy dividend payouts. We felt that rising bad debt charges would result in lower valuations being demanded by investors and largely this has come about and the sector has underperformed the overall market. While we are yet to feel more positive on the growth outlook, the valuations have begun to reflect an overly gloomy outlook and we have started to increase our holdings, in particular in **HSBC** and **Royal Bank of Scotland**. Both have very strong capital positions and their global operations should shield their profits from a domestic slowdown in lending growth.

B Lofthouse

We have been fairly active in the smaller company part of the portfolio, finding new companies to invest in and increasing holdings of long term positions we favour. Our holding of **Galliford** predates my arrival as portfolio manager in 1996 but I have steadily bought more in most years and our overall average purchase price of 25p compares favourably with the year end price of 164p. Other smaller companies where we increased holdings during the year included **Goldenport** (Greek shipping company), **Teesland Advantage Property Trust** (UK property), **Atrium Underwriting** (insurance) and **Smiths News** (newspaper distribution). These companies had very healthy dividend yields on investment and we felt were undervalued by the market.

The explosive growth in commodity prices over the past few years has led to a sharp appreciation of the mining sector. Conversely, the oil companies have failed to participate in the appreciation of the oil price as they have found that rising costs, taxes and disappointing production schedules have limited profit growth. Historically neither sector has been high yielding and, while our only mining holding was **Kazakhmys**, which was sold at a handsome profit during the year, we had only modest positions in the oil sector. Today dividend yields are higher and we have been increasing our holding in **BP**. The bad news on this company has been relentless but much is now factored into the share price. Its reserves position is one of the best in the industry, which, combined with new management and a clearer focus, should lead to better returns.

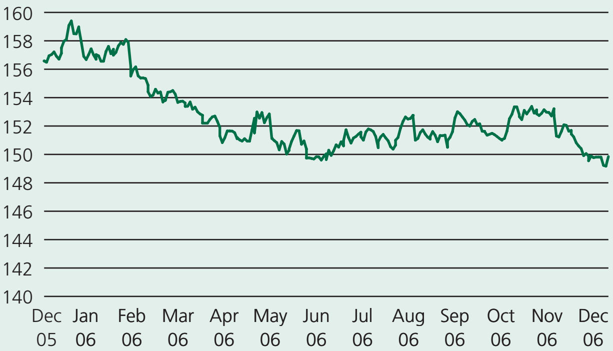
Prospects

We are mindful that share prices have moved a considerable way since the lows in 2003. While the FTSE 100 index of the largest companies has yet to reach the heights of the year 2000, the mid-market and our own net asset value both reached new all time highs at the end of the year. Economic conditions are still benign and the scare stories touted by some with regard to consumer indebtedness do not seem about to materialise in the short term. Wage inflation of three to four percent should offset any future small rise in interest rates and allow consumer spending growth to moderate but not fall. A cooling down of the housing market would also be welcome. Our gearing levels have steadily fallen during the year and our bond holdings may well be dull for a second year but should cover the cost of our borrowings. Equity returns will struggle to achieve the returns of recent years but valuations are not stretched and we continue to find undervalued companies to invest in.

A A Crooke
B Lofthouse

6 March 2007

UK Gilts: 2006 Price Performance



FTA Government All Stocks Index
Source: Datastream

UK Equities: 2006 Share Price Performance

FTSE All-Share Index
Source: Datastream

Investments: Fixed Interest

Valuations at 31 December 2006

STERLING FIXED INTEREST	£'000
Preference Shares	
Abbey National 10 3/8%	1,151
Aviva 8.75%	1,725
Co-Operative Bank 9 1/4%	1,591
General Accident 8 7/8%	1,089
HBoS 9.75%	1,980
Middlefield Canadian Inc Part Pref 7%	860
National Westminster Bank 9%	1,151
Standard Chartered 8.25%	688
Sun Alliance 7 3/8%	1,234
Total Preference Shares	**11,469**

STERLING FIXED INTEREST continued	£'000
Others	
Anglo Irish Asset 8.5325% 2011	1,215
Barclays Bank 6% Perpetual 2049	1,222
BNP Paribas Cap Tst V 7.2% (US$ Perpetual)	257
Carnival 7.125% 2012	758
Constellation Brands 8.5% 2009	530
Credit Suisse Group 8.514% 2015	1,160
Daily Mail & General Trust 7.5% 2013	808
European Investment Bank 6% 2028	1,470
Gallaher 6.625% 2009	1,019
HSBC Capital Funding 8.208% 2015	1,155
Hutchison Ports 6.75% 2015	602
Investec Finance 7.75% 2016	1,051
Lloyds TSB Bank 7.834% 2015	1,683
Morgan Stanley 5.375% 2013	643
Munich Re Finance 7.625% 2028	1,146
National Westminster Bank 7.625% 2049	493
Old Mutual Cap Funding 8% (US$)	532
Pearson 7% 2014	583
Portman Building Society 7.125% 2016	1,047
SPI Finance 8.75% 2049	908
Total Others	**18,282**
TOTAL FIXED INTEREST	**29,751**

Investments: Equities (including convertibles)

Valuations at 31 December 2006

OIL & GAS	£'000
Oil & Gas Producers	
BP	4,313
LASMO OPS	137
Royal Dutch Shell 'B'	2,618
Total Oil & Gas	**7,068**

INDUSTRIALS	£'000
Construction & Materials	
Galliford Try	3,719
Aerospace & Defence	
BAE Systems	1,490
General Industrials	
Rexam	2,092
Electronic & Electrical Equipment	
TT Electronics	897

INDUSTRIALS continued	£'000
Industrial Engineering	
Metalrax	672
Senior	365
Industrial Transportation	
Fisher J & Sons	1,251
Forth Ports	753
Goldenport	574
TDG	499
Support Services	
Amec	1,919
†Balfour Beatty	801
Davis Service	763
Interserve	752
McAlpine	1,737
Smiths News	543
Total Industrials	**18,827**

†including convertibles

Investments: Equities (including convertibles)

continued

CONSUMER GOODS	£'000
Automobiles & Parts	
GKN	1,112
Beverages	
Diageo	1,203
Scottish & Newcastle	1,986
Food Producers	
Dairy Crest	2,386
Household Goods	
Barratt Developments	1,544
Taylor Woodrow	1,002
Tobacco	
British American Tobacco	3,001
Imperial Tobacco	3,015
Total Consumer Goods	**15,249**

HEALTH CARE	£'000
Pharmaceuticals & Biotechnology	
GlaxoSmithKline	1,546
Total Health Care	**1,546**

CONSUMER SERVICES	£'000
Food & Drug Retailers	
Tesco	1,295
General Retailers	
Findel	2,431
Home Retail	615
Media	
ITV	676
Trinity Mirror	563
Travel & Leisure	
Go-Ahead	1,827
Greene King	1,364
The Hotel Corporation	1,440
Wolverhampton & Dudley	1,158
Total Consumer Services	**11,369**

TELECOMMUNICATIONS	£'000
Fixed Line Telecommunications	
BT	5,066
Mobile Telecommunications	
Vodafone	825
Total Telecommunications	**5,891**

UTILITIES	£'000
Electricity	
Drax	1,183
Scottish & Southern Energy	3,683
Gas, Water and Multiutilities	
National Grid Transco	2,878
Northumbrian Water	2,448
Severn Trent	1,480
United Utilities	2,600
Total Utilities	**14,272**

FINANCIALS	£'000
Banks	
Alliance & Leicester	1,821
HSBC	5,037
Lloyds TSB	2,343
Northern Rock	2,062
Royal Bank of Scotland	3,647
Nonlife Insurance	
Atrium	645
Benfield	1,073
Catlin	1,259
Jardine Lloyd Thompson	421
Life Insurance	
Aviva	2,703
Chesnara	783
Old Mutual	3,336
Prudential	1,998
Resolution	2,423
Real Estate	
Great Portland	2,081
Rodamco	2,717
Land Securities	3,119
Teesland Advantage	1,081
General Financial	
Close Brothers	915
Eurocastle	1,050
F&C Asset Management	1,055
ICAP	981
Intermediate Capital	2,141
Investec	2,143
London Scottish	798
Prodesse Investment	3,288
Provident Financial	1,017
Total Financials	**51,937**

TOTAL EQUITIES	**126,159**

Classification of Investments

at 31 December 2006

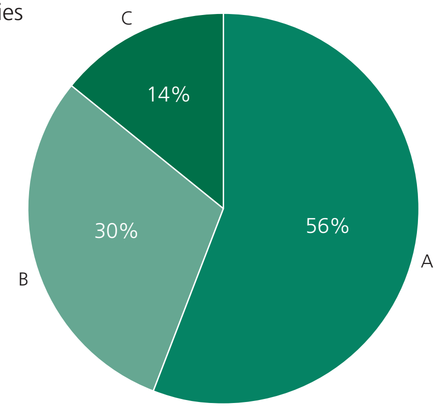
	Total 31 Dec 2006 %	Total 31 Dec 2005 %
FIXED INTEREST		
Preference Shares	**7.4**	7.6
Others	**11.7**	13.7
Total Fixed Interest	**19.1**	21.3
EQUITIES		
Oil & Gas		
Oil & Gas Producers	**4.5**	5.2
Total Oil & Gas	**4.5**	5.2
Basic Materials		
Chemicals	**–**	0.9
Mining	**–**	0.3
Total Basic Materials	**–**	1.2
Industrials		
Construction & Materials	**2.4**	3.2
Aerospace & Defence	**1.0**	1.3
General Industrials	**1.3**	1.6
Electronic & Electrical Equipment	**0.6**	0.8
Industrial Engineering	**0.6**	0.7
Industrial Transportation	**2.0**	2.0
Support Services	**4.2**	3.3
Total Industrials	**12.1**	13.0
Consumer Goods		
Automobiles & Parts	**0.7**	0.4
Beverages	**2.1**	1.9
Food Producers	**1.5**	2.2
Household Goods	**1.6**	2.3
Tobacco	**3.9**	3.7
Total Consumer Goods	**9.8**	10.6
Health Care		
Pharmaceuticals & Biotechnology	**1.0**	1.2
Total Health Care	**1.0**	1.2
Consumer Services		
Food & Drug Retailers	**0.8**	–
General Retailers	**2.0**	1.7
Media	**0.8**	1.4
Travel & Leisure	**3.7**	5.1
Total Consumer Services	**7.3**	8.2

	Total 31 Dec 2006 %	Total 31 Dec 2005 %
Telecommunications		
Fixed Line Telecommunications	**3.3**	3.3
Mobile Telecommunications	**0.5**	0.8
Total Telecommunications	**3.8**	4.1
Utilities		
Electricity	**3.1**	1.7
Gas, Water & Multiutilities	**6.0**	6.3
Total Utilities	**9.1**	8.0
Financials		
Banks	**9.5**	7.2
Nonlife Insurance	**2.2**	2.3
Life Insurance	**7.2**	6.3
Real Estate	**5.8**	5.1
General Financial	**8.6**	6.3
Total Financials	**33.3**	27.2
TOTAL INVESTMENTS	**100.0**	100.0

Distribution of the Equity Portfolio of Henderson High Income Trust plc

at 31 December 2006

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


Andrew Bell


Vivian Bazalgette


Christopher Dunkerley


The Rt Hon Sir John Stanley

Hugh J Twiss (age 57) joined the Board on 1 October 2003, and was elected Chairman of the Nominations Committee in 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 a non-executive director of INVESCO Income Growth Trust plc, a member of the Greenwich Hospital Advisory Panel and is involved with other charities, as well as doing various consultancy assignments.

Andrew L C Bell (age 51) 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 there, in 2000 he joined Carr Sheppards Crosthwaite (now Rensburg Sheppards Investment Management Limited) where he is Head of Research and Strategy. Prior to the City, he worked for Shell in Oman, leaving to take a Sloan Fellowship at the London Business School. He is a non-executive director of Framlington Innovative Growth Trust plc and of the Association of Investment Companies, as well as serving as a Governor of Bedford School.

Vivian P Bazalgette (age 55) joined the Board on 1 November 2004. His career as an investment specialist began 25 years earlier 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 an adviser to BAE Systems Pension Fund, and, among a number of charity involvements, is a governor of Dulwich College and a trustee of King's College Hospital Charity.

Christopher Dunkerley (age 55) joined the Board in 1989. He joined the City from university in 1973, accumulating more than 30 years' experience in investment and private banking. His first appointment was with Wm. Brandts as a graduate trainee. He then worked as a credit analyst with Orion Bank, as an Assistant General Manager with Saudi International Bank, as an Associate Director with James Capel & Co., as Chief Executive Officer of Dartington & Co. and as a Senior Private Banker with Coutts & Co. As a Certified Financial Planner, he established his own private client advisory business in 2000 and is now a director of Dunkerley Financial Planning Limited and a governor of Clifton College.

The Rt Hon Sir John Stanley MP (age 65) joined the Board in April 1997 following the merger with Henderson Highland Trust plc, of which he was a director from 1990. He was a director of Fidelity Japanese Values plc from 1994-2005. He has been a director of three other investment trusts or closed end funds, as follows: The Latin American Capital Fund Limited 1991-1996, The Latin American Capital Fund (Chile) Limited 1991-1996 and Gartmore Balanced Assets Trust plc 1999-2003. He was a member of the AIC's Steering Group that produced the first Statement of Recommended Practice (SORP) for investment trusts. He is currently a member of the AIC's Buyers' and Independent Directors' Forum. He is the Member of Parliament for Tonbridge and Malling.

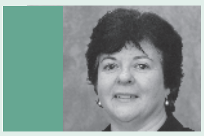
All directors are non-executive and are members of the Management Engagement and Nominations Committees.

All directors except the Chairman of the Board, Mr Twiss, are members of the Audit Committee.

Management


Alex Crooke


Ben Lofthouse


Deborah Trickett

Alex Crooke (age 37) has been Portfolio Manager of the Trust since 1997. He is also manager of The Bankers Investment Trust PLC.
Ben Lofthouse (age 31) became Deputy Portfolio Manager in August 2006.
Deborah Trickett ACIS is the appointed representative of the Corporate Company Secretary, Henderson Secretarial Services Limited.

Report of the Directors

The directors present the audited accounts of the Company and their report for the year ended 31 December 2006.

Status

The Company is an investment company as defined in Section 266 of the Companies Act 1985 and operates as an investment trust in accordance with Section 842 of the Income and Corporation Taxes Act 1988. It is required to seek HM Revenue & Customs approval of its status as an investment trust under Section 842 every year, and this approval will continue to be sought. HM Revenue & Customs approval of the Company's status as an investment trust has been received in respect of the year ended 31 December 2005, although this approval is subject to there being no subsequent enquiries under Corporation Tax Self Assessment. 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 Individual Savings Account and also fully qualify for a Personal Equity Plan.

Business Review

The following review is designed to provide information primarily about the Company's business and results for the year ended 31 December 2006 and covers:

- Investment objective and policy
- Performance for the year and dividend
- Performance measurement and key performance indicators
- Management arrangements
- Internal controls and management of risks
- Gearing and overdraft facility
- Share capital
- Duration of the Company
- Future developments

A review of the investment activities for the year ended 31 December 2006 and the outlook for the coming financial year are given in the Investment Review on pages 5 to 7.

Investment objective and policy

The Company has not changed its investment objective and policy over the last year. The objective is to invest in a prudently diversified selection of both well-known and smaller companies to provide a high income stream and prospects of capital growth.

Performance for the year and dividend

Total net assets at 31 December 2006 amounted to £126,637,000 compared with £106,605,000 at 31 December 2005, and the net asset value per ordinary share increased from 155.26p to 181.72p.

At 31 December 2006 there were 102 (2005: 117) separate investments, as detailed in the Investment Review on pages 8 and 9.

Net revenue after taxation for the year was £5,621,000, an increase of 1.9% from the previous year.

	At 31 December 2006	At 31 December 2005	% Change
Net assets	**£126.6m**	£106.6m	+18.7
Revenue return per share	**8.09p**	9.33p	-13.3*
Dividend	**7.91p**	8.83p	-10.4*

*reduced dividend level following the Company's capital reorganisation in September 2005

The Board aims to make progressive and steady increases in annual dividend payments. Shareholders must, however, recognise that such increases can never be guaranteed, and that circumstances may arise when it is necessary to reduce a dividend payment. Equally, there may be instances when the level of payment must be increased in order to comply with ICTA 1988 Section 842 in respect of the retention of distributable 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.

The directors have declared a fourth interim dividend of 2.015p per ordinary share. This dividend, together with the three other interim dividends, make a total for the financial year of 7.905p (2005: 8.825p) net per share. The fourth interim dividend will be paid on 30 April 2007 to members on the register at the close of business on 30 March 2007. The ex-dividend date for the payment will be 28 March 2007.

Report of the Directors
continued

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

- Performance
  The Board reviews at each meeting the performance of the portfolio as well as the net asset value and share price for the Company. The Board also compares the performance of the Company against the benchmark, which is a composite of 75% of the performance of the FTSE All-Share Index and 25% of the FTA Government All Stocks Index. The Board considers this to be its most important key performance indicator and has determined that it should also be used to calculate whether a performance fee is payable to the Investment Manager as set out below.

- 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 and reviews the average premium for the Company's relevant AIC sector.

  The Company publishes a NAV per share figure on a daily basis, through the official newswire of the London Stock Exchange. This figure is calculated in accordance with the AIC formula and excludes current financial year end revenue items. This means that it is on a different basis to the NAV per ordinary share calculated within the year end financial statements, which does include current financial year revenue items.

- Performance against the Company's peer group
  The Company is included in the AIC "UK High Income" sector. In addition to comparison against the stated Benchmark, the Board also considers the performance of its AIC peer group at each Board meeting.

- Total expense ratio ("TER")
  The TER is a measure of the total expenses (excluding finance costs) incurred by the Company, including those charged to capital, expressed as a percentage of the average shareholders' funds over the year. Performance fees are not included. The Board regularly reviews the TER and monitors all Company expenses.

	At 31 December 2006 %	At 31 December 2005 %
Net asset value total return	+23.2	+28.7
FTSE All-Share Index total return	+16.8	+22.0
FTA Government All Stocks Index total return	+0.7	+7.9
AIC Sector net asset value total return	+19.0	+25.1
Share price total return	+20. 6	+43.0
AIC Sector share price total return	+17.4	+21.7
(Discount)/premium	(0.3)	1.9
Total expense ratio	0.9	1.3

Management arrangements
Investment management, UK custodial, accounting, company secretarial and administrative services are provided to the Company by wholly owned subsidiary companies of Henderson Global Investors (Holdings) plc ("Henderson") and by BNP Paribas Fund Services UK Limited.

The management agreement provides for the payment of a composite annual management fee which is calculated as a percentage of the average value of assets under management on the last day of each of the two years preceding the calendar year in respect of which the calculation is made. The percentage applicable throughout the year ended 31 December 2006 was 0.5 per cent.

The Company also has a performance-related fee arrangement. Performance is measured on the average performance of the Company's total assets (calculated in accordance with Global Investment Performance Standards) over a period of three years, compared with a performance benchmark. The benchmark is a composite of 75% of the performance of the FTSE All-Share Index and 25% of the FTA Government All Stocks Index. The performance of both the Company and the composite benchmark is measured on a total return basis; returns for the Company and the FTSE All-Share Index are measured on the basis of net income re-invested, while returns for the FTA Government All Stocks Index are measured on a gross income basis.

Report of the Directors

continued

Performance is measured on a three-year rolling basis. Thus, the fee calculated as at 31 December 2006 takes the average performance over the calendar years 2004 to 2006; that at 31 December 2007, performance over 2005 to 2007 and so on. In any given year in which a performance fee is payable, the fee rate is increased by 0.15% for every 1% average outperformance on a sliding scale. The upper limit on the total fee, including the base fee and any performance fee, for any given accounting year is 1.5%. While performance is measured over three years, only the current year's fee would be increased in the event of outperformance.

The average annual total return of the Company's total assets over the three years to 31 December 2006 was 19.3% (2005: 18.8%). This compared with the benchmark return of 14.1% (2005: 15.3%).

Additional funds raised by the Company by way of an issue of securities are subject to a supplemental fee from the date on which the net proceeds are received and are added to the value of assets at 31 December preceding such fundraising for the purpose of calculating the following year's management fee. Investments in any funds managed by Henderson are wholly excluded from the fee calculation. The management fee is payable quarterly in arrears. VAT is payable on the fees where applicable.

The management agreement may be terminated by either party but in certain events the Company may be required to pay compensation to Henderson of an amount of up to one year's management fees. Compensation is not payable if one or more years' notice of termination is given.

During the year under review, in line with revised commission sharing arrangements put in place with effect from 1 January 2006, the Manager used research services which were paid for, or provided by, various brokers. In return it placed business, which may have included transactions relating to the Company, with these brokers.

Internal controls and management of risks

There are in place extensive internal controls to evaluate and manage any major financial, operational and compliance risks facing the Company. Details of the internal controls system and how the Board undertakes the analysis of the Company's business risks are contained in the Corporate Governance statement on page 20.

The risk of the portfolio is monitored regularly by the Board and it should be noted that deviation from the benchmark is not necessarily an increased risk. The Portfolio Manager ensures that portfolio risk is mitigated by stock diversification in line with the stated investment objective.

Due to its investment strategy, the Company's business activities are exposed to market price risk, interest rate risk, liquidity risk, counterparty risk and credit risk. The Company's policies for managing these risks are set out in note 13 to the accounts.

Gearing and overdraft facility

The Board has in place facilities which allow it to borrow as and when appropriate. At 31 December 2006 the Company had committed loan facilities of £43.5m. Details of the facility are contained in note 13c to the accounts. Actual gearing at 31 December 2006 was 27%.

Share capital

During the year, the directors allotted 1,025,000 new ordinary shares. The number of ordinary shares in issue on 31 December 2006 was 69,687,798 (2005: 68,662,798).

Since 31 December 2006, and up to the date of this document, the Company has not allotted any further ordinary shares.

Duration of the Company

In accordance with the Company's Articles of Association, an ordinary resolution was proposed and passed at the 2005 AGM to continue the life of the Company. The next such ordinary resolution will be put to shareholders in 2010.

Future developments

While the future performance of the Company is dependent, to a large degree, on the performance of international financial markets, which, in turn, are subject to many external factors, the Board's intention is that the Company will continue to pursue its stated investment objective in accordance with the strategy outlined above. Further comments on the outlook for the Company for the next 12 months are set out in both the Chairman's Statement (on pages 3 and 4) and the Investment Review (on pages 5 to 7).

Directors

The names and biographies of the directors holding office at the date of this report are given on page 11. Mr William

Report of the Directors

continued

Eason and Mr Patrick Dalby retired at the conclusion of the AGM on 2 May 2006.

All the directors are deemed to be independent of the management company, notwithstanding length of service.

Directors' retirement by rotation and re-election is subject to the Articles of Association, the Combined Code and by reference to the AIC Code of Corporate Governance. One-third (but not more than one-third) of the directors are required to retire at each AGM. The directors to retire shall first be those directors who did not seek re-election at the two preceding AGMs. Mr Hugh Twiss, who was last re-elected in 2004, will retire by rotation and, being eligible, offers himself for re-election. Mr Dunkerley has served on the Board for more than nine years. In accordance with the Combined Code on Corporate Governance, he stands for annual re-election by shareholders and offers himself for re-election at the forthcoming AGM. The Board considers that these two directors continue to contribute valuable experience to the leadership of the Company.

Sir John Stanley, who has served on the Board since 1997 (and previously on the board of Henderson Highland Trust plc from 1990) will stand down from the Board at the conclusion of the AGM.

Directors' Interests in Shares

	Ordinary shares of 5p	
	31 December 2006	31 December 2005
With beneficial interest:		
V P Bazalgette	**10,000**	10,000
A L C Bell	**20,000**	20,000
C Dunkerley	**100,000**	100,000
Sir John Stanley	**4,965**	4,965
H J Twiss	**19,165**	18,312

The interests of the directors in the ordinary shares of the Company at the beginning and end of the financial year are shown in the table above. Since the end of the financial year and to the date of this report, Mr Twiss has become beneficially interested in a further 211 ordinary shares in the Company. There have been no further changes in the interests of the directors since the year end.

Directors' Remuneration

A report on directors' remuneration is on pages 18 and 19.

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. No director has a service contract with the Company.

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 judgement is given in their favour by the Court.

To the extent permitted by law and by the Company's Articles of Association, the Company has entered into deeds of indemnity for the benefit of each director of the Company in respect of liabilities which may attach to them in their capacity as directors of the Company.

These provisions, which are qualifying third party indemnity provisions as defined by s.309B of the Companies Act 1985, have been in force since January 2007 and currently remain in force.

Substantial Shareholders

Shareholder	% of voting rights
UBS Wealth Management Limited	16.6
Legal & General Group Plc	3.0

Declarations of interests in the voting rights of the Company, at 28 February 2007, are set out above.

In addition, the Board is aware that, at 28 February 2007, 17.9% of the voting rights were held on behalf of participants in the Henderson Savings Schemes. These participants are given the opportunity to instruct the relevant nominee company to exercise their voting rights appertaining to their shares in respect of all general meetings of the Company, but if the participants choose not to do so the voting rights are not exercised.

Report of the Directors

continued

Annual General Meeting ("AGM")

The AGM will be held on 15 May 2007 at 11.30am. The Notice of Meeting is set out on pages 41 and 42.

Approval to increase aggregate directors' fees (ordinary resolution 7)

The Company's Articles of Association currently limit the maximum total fees that may be paid to the directors in any one year to £100,000. This limit has not changed for a number of years. The directors are proposing this resolution to increase that aggregate amount to £150,000.

Authority to allot shares and disapply pre-emption rights

On 2 May 2006 the directors were granted authority to allot 6,928,780 authorised but unissued ordinary shares. This authority will expire at the forthcoming AGM in May 2007. Authority was also given to the directors to allot securities of a limited value for cash without first offering them to existing shareholders in accordance with statutory pre-emption procedures. This too will expire at the AGM in May 2007.

Since the 2006 AGM the directors have allotted 250,000 shares.

The Board wishes to continue to have authority to allot new ordinary shares on a non pre-emptive basis. Appropriate resolutions to renew both authorities will be proposed at the 2007 AGM and are set out in full in the Notice of Annual General Meeting on pages 41 and 42. An ordinary resolution will be proposed to authorise the directors to allot shares up to a maximum aggregate nominal amount of £348,438 (being 10% of the issued share capital as at the date of the Notice of the AGM). A special resolution will also be proposed to give the directors authority to allot securities for cash on a non pre-emptive basis up to a maximum aggregate nominal amount of £348,438 (being 10% of the Company's issued share capital as at the date of the Notice of the AGM).

Pre-emption rights under the Companies Act apply to the resale of treasury shares for cash, just as they do for the allotment of new shares. The Board's intention is that resolution 9 would relate to either new issues or to the resale of treasury shares.

The directors intend to issue shares pursuant to these authorities if investor demand for them is strong. However, the directors will issue shares only when they believe it to be advantageous to the Company's existing shareholders to do so. The allotment of new shares and the sale of treasury shares will only be made at a premium to net asset value.

If renewed, both of these authorities will expire at the conclusion of the AGM in 2008.

Authority to make market purchases of the Company's own shares

The authority granted to directors at the AGM in May 2006 to make market purchases of up to 10,408,725 ordinary shares (with a nominal value of £520,436) for cancellation or to be held in treasury has not been used. This authority will expire at the forthcoming AGM.

The Board wishes to seek a fresh authority and, accordingly, a special resolution will be proposed at the forthcoming AGM to give the Company authority to make market purchases of up to 14.99% of the ordinary shares in issue at the date of the AGM. The directors will exercise this authority only when such shares can be purchased at a price that represents a discount to the then prevailing net asset value per share or if to do so would result in an increase in the net asset value per share. The authority will lapse unless renewed at the AGM due to be held in 2008.

The maximum purchase price which may be paid for an ordinary share will not be more than 5 per cent. above the average of the middle market values of the shares, as taken from the London Stock Exchange Daily Official List, for the five business days preceding the date of purchase. The minimum price will be 5p, being the nominal value per ordinary share.

The resolution to be put to shareholders will also authorise the Board to hold up to 10% of the issued share capital in treasury on the condition that the treasury shares would only be sold at a premium to net asset value. The Board considers that the use of treasury shares could be beneficial to the Company's shareholders.

Auditors

RSM Robson Rhodes LLP were appointed by the Board as independent auditors to the Company following the resignation of Deloitte & Touche LLP in June 2006. Special

Report of the Directors
continued

notice has been received in respect of the appointment of RSM Robson Rhodes LLP as auditors to the Company. Accordingly, resolutions to appoint RSM Robson Rhodes LLP as auditors to the Company, and to authorise the directors to determine their remuneration, will be proposed at the AGM.

Directors' Statement as to Disclosure of Information to Auditors

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

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

Corporate Governance

A statement on Corporate Governance is on pages 20 to 24.

Environmental Policy

The Company has no employees and outsources its investment management and company secretarial services to subsidiaries of Henderson Group plc ("Henderson Group"). Henderson Group has implemented environmental management practices, which include systems to limit the use of non-renewable resources and minimise the impact of operations on the environment, and is focused on reducing greenhouse gas emissions and minimising waste, where possible.

Payment of Suppliers

It remains the payment policy to obtain the best possible terms for all business and, therefore, there is no single policy as to the terms used. In general the Company agrees with its suppliers the terms on which business will take place and it is the Company's policy to abide by such terms. There were no trade creditors at 31 December 2006.

Going Concern

The directors believe that it is appropriate to continue to adopt the going concern basis in preparing the accounts as the assets of the Company consist mainly of securities which are readily realisable and, accordingly, the Company has adequate financial resources to continue in operational existence for the foreseeable future.

By order of the Board

D J Trickett ACIS
For and on behalf of
Henderson Secretarial Services Limited
Secretary
6 March 2007

Directors' Remuneration Report

Introduction

This report is submitted in accordance with Schedule 7A to the Companies Act 1985. The report also meets the relevant rules of the Listing Rules of the Financial Services Authority and describes how the Board has applied the principles relating to directors' remuneration. As required by the Act, a resolution to approve the report will be proposed at the AGM.

The Company's auditors are required to report on certain information contained within this report. Where information set out below has been audited, it is indicated as such.

Statement of the Company's Policy on Directors' Remuneration

The Board consists entirely of non-executive directors, who are appointed with the expectation that they will serve for a period of three years. Directors' appointments are reviewed formally every three years thereafter by the Board as a whole. 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. The Company's policy is for the directors to be 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 chairmen of key committees 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: £22,500, Chairman of the Audit Committee: £17,500 and Directors: £15,000. These were increased during the year due to increased responsibility. The policy is to review these rates annually in light of the fees paid to the boards of other investment trust companies, 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 box below.

Directors' and Officers' Liability Insurance cover is held by the Company in respect of the directors.

Consideration by the Directors of Matters relating to Directors' Remuneration

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.

Amount of each Director's Emoluments (audited)

The fees payable in respect of each of the directors who served during the year, and during 2005, were as follows:

	2006 £	2005 £
V P Bazalgette	**15,646**	11,500
A L C Bell	**13,500**	11,500
P C J Dalby (*)	**4,052**	11,500
C Dunkerley	**13,500**	11,500
W D Eason (*)	**6,078**	17,250
Sir John Stanley	**13,500**	11,500
H J Twiss	**18,228**	11,500
TOTAL	**84,504**	86,250

Notes:

(*) Messrs Eason and Dalby retired from the Board on 2 May 2006.

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

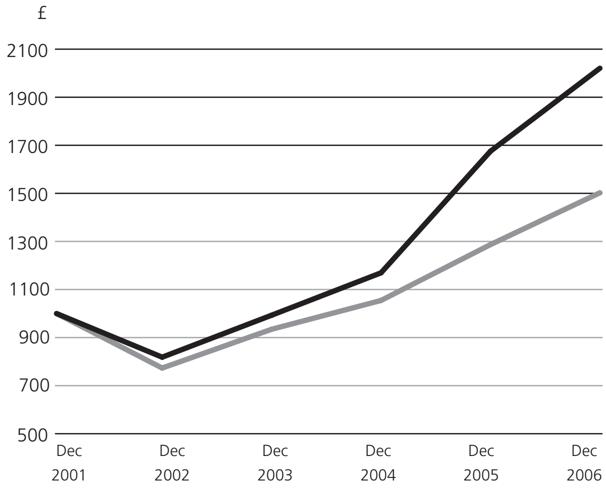
The following travel expenses were claimed and paid:

	2006 £	2005 £
C Dunkerley	**1,187**	1,203
H J Twiss	**32**	–

Directors' Remuneration Report

continued

Performance Graph



Henderson High Income Trust ordinary share price total return, assuming the investment of £1,000 on 31 December 2001 and the reinvestment of all dividends (excluding dealing expenses) (Source: Fundamental Data for the AIC).

FTSE All-Share Index total return, assuming the notional investment of £1,000 into the Index on 31 December 2001 and the reinvestment of all income (excluding dealing expenses) (Source: Datastream).

The graph opposite provides details of the Company's performance for the past five years.

The FTSE All-Share Index is selected because it is the single broad equity market index that most closely matches the Company's investments.

By order of the Board

D J Trickett ACIS
For and on behalf of
Henderson Secretarial Services Limited
Secretary
6 March 2007

Statement of Directors' Responsibilities in respect of the Accounts

The directors are required by UK company law to prepare accounts for each financial year that give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for that period.

The directors are responsible for keeping proper accounting records, for the system of internal control, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that suitable accounting policies have been used and applied consistently and that reasonable and prudent judgements and estimates have been made in the preparation of the accounts for the year ended 31 December 2006. The directors also confirm that applicable accounting standards have been followed and that the accounts have been prepared on a going concern basis.

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

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

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

Corporate Governance

Introduction

The directors are accountable to shareholders for the governance of the Company's affairs.

This statement describes how the principles of the Combined Code on Corporate Governance ("the Code") issued by the Financial Reporting Council in July 2003 have been applied to the affairs of the Company. In applying the principles of the Code, the directors have also taken account of the Code of Corporate Governance published by the Association of Investment Companies ("the AIC Code"), which established the framework of best practice specifically for the Boards of investment trust companies. There is some overlap in the principles laid down by the two Codes and there are some areas where the AIC Code is more flexible for investment trust companies.

The directors believe that during the period under review they have complied with the provisions of the Code, insofar as they apply to the Company's business, and with the provisions of the AIC Code. From 1 January 2007 the Company will report against the revised combined code published in June 2006.

Application of the Code's Principles

The Board attaches importance to the matters set out in both the Code and the AIC Code and observes the relevant Main and Supporting Principles. It should be noted that, as an investment trust, most of the Company's day-to-day responsibilities are delegated to third parties and the directors are all non-executive. Thus, not all the provisions of the Code are directly applicable to the Company.

Internal Controls

The Board has overall responsibility for the Company's system of internal controls and for reviewing its effectiveness. These controls aim to ensure that assets of the Company are safeguarded, proper accounting records are maintained, and the financial information used within the business and for publication is reliable. Control of the risks identified, covering financial, operational, compliance and risk management, is embedded in the controls of the Company by a series of regular investment performance and attribution statements, financial and risk analyses and Manager's reports, and a quarterly control report. Key risks have been identified and controls have been put in place to mitigate such risks, including those risks that are not directly the responsibility of the Manager. The effectiveness of the internal controls is assessed by the Manager's compliance and risk department on a continuing basis.

The Manager and custodian maintain their own systems of internal controls and the Board and Audit Committee receive regular reports from the Manager. The control systems are designed to provide reasonable, but not absolute, assurance against material misstatement or loss, and to manage rather than eliminate risk of failure to achieve objectives.

The Board has established a process for identifying, evaluating and managing any major risks faced by the Company. The process is subject to regular review by the Board and accords with the FRC's Internal Control Guidance for Directors on the Combined Code published in October 2005.

The Manager is responsible for the day-to-day investment management decisions on behalf of the Company and for the provision of company secretarial and accounting services. A statement of the Manager's responsibilities is shown on page 13 in the Report of the Directors.

The Board, assisted by the Manager, has undertaken an annual review of the Company's system of internal controls and the business risks have been analysed and recorded in a risk map which is reviewed regularly. The Board receives each quarter from the Manager a formal report which details the steps taken to monitor the areas of risk, including those that are not directly the responsibility of the Manager, and which reports the details of any known internal control failures. The Board receives each year from the Manager a report on its internal controls which includes a report from the Manager's reporting accountants on the control policies and procedures in operation.

The Company does not have an internal audit function; it delegates to third parties its day-to-day operations and does not employ any staff. The Board will continue to monitor its system of internal controls in order to provide assurance that it operates as intended and the directors review annually whether a function equivalent to an internal audit is needed.

Board Independence and Composition

The Board currently consists of five directors, all of whom are non-executive. Sir John Stanley will stand down from the

Corporate Governance
continued

Board at the conclusion of the AGM in May 2007. The directors have reviewed their independence. The Board has considered the continued appointment of Mr Dunkerley, who has served on the Board for over ten years. He has no other links to the Manager and has other professional employment. The Board has concluded that Mr Dunkerley continues to make a valuable contribution to the Board. Notwithstanding Mr Dunkerley's length of service, he remains independent in character and judgement. The Board subscribes to the AIC Code view that length of tenure is not in itself felt to be an issue, rather the director's contribution. The Board is conscious of the need to maintain continuity on the Board, and believes that retaining directors with sufficient experience of both the Company and the markets is of great benefit to shareholders.

The directors' biographies on page 11 demonstrate the breadth of investment, commercial and professional experience relevant to their positions as directors on the Board of the Company.

Chairman

Following Mr Eason's retirement from the Board at the AGM in May 2006, Mr Twiss has been Chairman. 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 Officer.

Senior Independent Director

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

Meetings

Currently the Board meets at least six times per annum and is responsible for the effective stewardship of the Company's affairs. Certain strategic issues have been considered at various meetings of the Board and additional meetings of the Board may be arranged as required. 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 and Board membership and appointments. In order to enable them to discharge their responsibilities, all directors have full and timely access to relevant information. At each meeting, the Board reviews the Company's investment performance and considers financial analyses and other reports of an operational nature. The Board monitors compliance with the Company's 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, which is contractually delegated to the Manager. The Board has responsibility for the approval of unquoted investments and any investments in in-house funds managed or advised by the Manager. It also has adopted a procedure for directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company.

The Chairman attends meetings of all the chairmen of the investment trust companies managed by the Manager; these meetings provide a forum to discuss industry matters and the Chairman reports on them to the Board.

The number of meetings of the Board and its Committees held during the year under review, and the attendance of individual directors, are shown below.

	Board	Audit	Management Engagement	Nominations
No of meetings in the year	**6**	**3**	**1**	**1**
V P Bazalgette	6	3	1	1
A L C Bell	6	3	1	1
P C J Dalby (*)	3	1	–	1
C Dunkerley	5	3	1	1
W D Eason (*)	3	1	–	1
Sir John Stanley	5	2	1	–
H J Twiss	6	3	1	1

*Messrs Eason and Dalby retired from the Board on 2 May 2006.

In addition to formal Board and Committee meetings, directors also attend a number of informal meetings to represent the interests of the Company.

Board Committees

The Board has appointed a number of Committees as set out below. Copies of the terms of reference, which clearly define

Corporate Governance
continued

the responsibilities and duties for each Committee, are available on the website and will be available for inspection at the AGM.

Audit Committee
The Audit Committee comprises all members of the Board excluding the Chairman, who is invited to attend. Following Mr Eason's retirement in May 2006, the Chairman of the Audit Committee is Mr Bazalgette. The Board has satisfied itself that at least one of the Committee's members has recent and relevant financial experience. The Committee has written terms of reference, which clearly define its responsibilities and duties.

The Committee meets at least twice each year to review the internal financial and non-financial controls, to consider and recommend to the Board for approval the contents of the draft Interim and Annual Reports to shareholders and to review the accounting policies and significant financial reporting judgements. In addition, the Committee reviews the auditors' independence, objectivity and effectiveness, appointment and remuneration, the quality of the services of the service providers to the Company, and, together with the Manager, reviews 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 Chairman's request.

Representatives of RSM Robson Rhodes LLP, the Company's auditors, attend the Committee meeting at which the draft Annual Reports 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.

During the year under review the Company's external auditors provided some non-audit services. The Audit Committee is satisfied that there were no independence issues and the auditors were selected on the basis of being the best placed firm to provide these services.

The Chairman of the Audit Committee will be present at the AGM to deal with questions relating to the Accounts.

Management Engagement Committee
The Management Engagement Committee's membership comprises all members of the Board. The Chairman of the Committee is Mr Twiss. The Committee meets at least annually to review the investment management agreement with the Company's Manager and to review the services provided by the Manager.

Nominations Committee
The Nominations Committee comprises all members of the Board. The Chairman of the Committee is Mr Twiss. The Committee, which meets at least annually, reviews the Board's size and structure and is responsible for Board succession planning.

The Committee would consider the option of using external recruitment consultants and open advertising when appointing new directors if it believes that either method is likely to provide any meaningful advantage over the internal process that has been adopted in the past.

Directors' Remuneration
As the Board has no executive directors and no employees and is comprised solely of non-executives, it does not have a Remuneration Committee. The Company therefore is not required to comply with the principles of the Code in respect of executive directors' remuneration. The Board as a whole determines and approves directors' fees following proper consideration (having regard to the level of fees payable to non-executive directors in the industry generally), the role that individual directors fulfil in respect of Board and Committee responsibilities and the time committed to the Company's affairs.

The Company's Articles of Association limit the aggregate fees payable to the Board to a total of £100,000 per annum. Detailed information on the remuneration arrangements for the directors of the Company can be found in the Directors' Remuneration Report on pages 18 and 19.

Tenure Policy
No director has a contract of employment with the Company. Directors' terms and conditions for appointment are set out in letters of appointment which are available for inspection at the Registered Office of the Company and will be available at the AGM.

The Articles of Association provide that no more than one-third of the directors must retire by rotation at each AGM but directors may then offer themselves for re-election. The terms

Corporate Governance
continued

of the directors' appointments also provide that a director shall retire and be subject to re-election at the first AGM after appointment and at least every three years thereafter.

Mr Twiss will retire by rotation in accordance with the Articles of Association and will seek re-election at the AGM in May.

The Board believes that each of the directors exercises independent judgement and that length of service does not diminish the contribution from a director; indeed a director's experience and extensive knowledge of the Company is a positive benefit to the Board. Moreover, long-serving directors are less likely to take a short-term view. This view is supported by the AIC Code. Two of the directors, Mr Dunkerley and Sir John Stanley, have served on the Board for more than nine years. Under Code provision A.7.2, directors who have served nine years or more should seek annual re-election from shareholders. Sir John Stanley is retiring from the Board following the AGM in May and is not therefore seeking re-election. Mr Dunkerley is standing for re-election at the 2007 AGM.

Under the Company's Articles of Association all directors must retire by the next annual general meeting after they attain the age of 70.

Directors' Training

When a new director is appointed, he, or she, is offered a training seminar which is held by the Manager. Directors are also provided on a regular basis with key information on the Company's activities, including regulatory and statutory requirements and internal controls. Changes affecting directors' responsibilities are advised to the Board as they arise. Directors also regularly participate in relevant training and industry seminars.

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, interviews are held between the Chairman and 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 Board confirms that, in light of the formal performance evaluation, the performance of each of the directors being recommended for re-election continues to be effective and to demonstrate commitment to his role.

The performance of the Company is considered in detail at each Board meeting.

The Board has direct access to company secretarial advice and services provided by the Manager which, through its nominated representative, is responsible for ensuring that the Board and Committee procedures are followed and that applicable regulations are complied with. During the year the Company has maintained insurance cover in respect of legal action against the directors.

Appointment of the Investment Manager

The Board reviews the performance of the Manager at each Board meeting. The Management Engagement Committee is responsible for the regular review of the terms of the management agreement. The Committee meets at least once every year and reviews the terms of the management agreement to ensure that they are competitive and sensible to shareholders. The Committee has established a procedure whereby it decides each year whether or not the Manager should be retained. At its meeting in November 2006 the Committee confirmed that Henderson should be retained as the Manager for the financial year ending 31 December 2007.

In the opinion of the directors, the continuing appointment of the Manager on the terms agreed is in the interests of the Company's shareholders as a whole. The main reasons for this opinion are the extensive investment management resources of the Manager and its experience in managing and administering investment trust companies.

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), the day-to-day accounting, company secretarial, administration 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

Corporate Governance

continued

services offered, including the control systems in operation in so far as they relate to the affairs of the Company.

The Board receives and considers regular reports from the Manager and ad hoc reports and information are supplied to the Board as required.

Financial Reporting

A Statement of Directors' Responsibilities in respect of the Accounts is set out on page 19. The Report of the Independent Auditors is set out below, and the Statement of Going Concern on page 17.

Voting Policy

The Company has approved a corporate governance voting policy which accords with current best practice whilst maintaining a primary focus on financial returns.

Relations with Shareholders

Shareholder relations are given high priority by both the Board and the Manager. The prime medium by which the Company communicates with shareholders is through the Interim and Annual Report and Accounts which aim to provide shareholders with a clear understanding of the Company's activities and their results. This information is supplemented by the daily calculation, and by the publication at the London Stock Exchange, of the net asset value of the Company's ordinary shares and a monthly fact sheet.

At each AGM a presentation is made by the Portfolio Manager following the business of the meeting. Shareholders have the opportunity to address questions to the Chairman and the Chairmen of the Committees of the Board at the AGM. All shareholders are encouraged to attend the AGM.

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

Report of the Independent Auditors

to the members of Henderson High Income Trust plc

We have audited the accounts on pages 26 to 40. These accounts have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's shareholders, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the accounts in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the accounts and the part of the Directors' Remuneration Report to be audited in accordance

Report of the Independent Auditors

continued

with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the accounts give a true and fair view and whether the accounts and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Report of the Directors is consistent with the accounts. The information given in the Report of the Directors includes that specific information presented in the Investment Review that is cross-referred from the Business Review section of the Report of the Directors.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited accounts. The other information comprises only the Report of the Directors, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Investment Review (including the lists and classification of investments), Highlights of the Year, Performance and Dividend Information and the Corporate Governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the accounts give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the Company as at 31 December 2006 and of its return for the year then ended;
- the accounts and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the accounts.

RSM Robson Rhodes LLP
Chartered Accountants and Registered Auditors
London, England
6 March 2007

Income Statement

for the year ended 31 December 2006

Notes		Year ended 31 December 2006 Revenue return £'000	Capital return £'000	Total £'000	Year ended 31 December 2005 Revenue return £'000	Capital return £'000	Total £'000
2	Gains on investments held at fair value through profit or loss	**–**	**21,069**	**21,069**	–	19,355	19,355
3	Income from investments held at fair value through profit or loss	**6,838**	**–**	**6,838**	6,596	–	6,596
4	Other interest receivable and similar income	**66**	**–**	**66**	92	–	92
	Gross revenue and capital gains	**6,904**	**21,069**	**27,973**	6,688	19,355	26,043
5	Management and performance fees	**(308)**	**(1,691)**	**(1,999)**	(288)	(1,210)	(1,498)
6	Other administrative expenses	**(276)**	**–**	**(276)**	(309)	(173)	(482)
	Net return on ordinary activities before finance costs and taxation	**6,320**	**19,378**	**25,698**	6,091	17,972	24,063
7	Finance costs	**(500)**	**(1,500)**	**(2,000)**	(358)	(1,074)	(1,432)
	Movement in provision for redemption of the zero dividend preference shares in the subsidiary	**–**	**–**	**–**	–	(2,253)	(2,253)
	Net return on ordinary activities before taxation	**5,820**	**17,878**	**23,698**	5,733	14,645	20,378
8	Taxation on net return on ordinary activities	**(199)**	**185**	**(14)**	(217)	204	(13)
	Net return on ordinary activities after taxation	**5,621**	**18,063**	**23,684**	5,516	14,849	20,365
9	**Return per ordinary share**	**8.09p**	**25.99p**	**34.08p**	9.33p	25.12p	34.45p

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

The notes on pages 30 to 40 form part of these accounts

Reconciliation of Movements in Shareholders' Funds

for the year ended 31 December 2006

Year ended 31 December 2006	**Share capital £'000**	**Share premium account £'000**	**Capital redemption reserve £'000**	**Other capital reserves £'000**	**Revenue reserve £'000**	**Total £'000**
At 31 December 2005	**3,433**	**26,620**	**26,302**	**46,710**	**3,540**	**106,605**
Net return on ordinary activities after taxation	**–**	**–**	**–**	**18,063**	**5,621**	**23,684**
Issue of new shares	**51**	**1,668**	**–**	**–**	**–**	**1,719**
Third interim dividend (1.9375p per share) for year ended 31 December 2005 paid 31 January 2006	**–**	**–**	**–**	**–**	**(1,329)**	**(1,329)**
Fourth interim dividend (1.9375p per share) for year ended 31 December 2005 paid 28 April 2006	**–**	**–**	**–**	**–**	**(1,342)**	**(1,342)**
First interim dividend (1.9375p per share) for year ended 31 December 2006 paid 28 July 2006	**–**	**–**	**–**	**–**	**(1,350)**	**(1,350)**
Second interim dividend (1.9375p per share) for year ended 31 December 2006 paid 31 October 2006	**–**	**–**	**–**	**–**	**(1,350)**	**(1,350)**
At 31 December 2006	**3,484**	**28,288**	**26,302**	**64,773**	**3,790**	**126,637**

Year ended 31 December 2005	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
At 31 December 2004	2,801	9,034	26,302	31,860	3,564	73,561
Net return on ordinary activities after taxation	–	–	–	14,850	5,516	20,366
Issue of new shares	632	17,586	–	–	–	18,218
Third interim dividend (2.475p per share) for year ended 31 December 2004 paid 31 January 2005	–	–	–	–	(1,387)	(1,387)
Fourth interim dividend (2.475p per share) for year ended 31 December 2004 paid 29 April 2005	–	–	–	–	(1,387)	(1,387)
First interim dividend (2.475p per share) for year ended 31 December 2005 paid 29 July 2005	–	–	–	–	(1,387)	(1,387)
Second interim dividend (2.475p per share) for year ended 31 December 2005 paid 31 October 2005	–	–	–	–	(1,387)	(1,387)
Return of unclaimed dividends	–	–	–	–	8	8
At 31 December 2005	3,433	26,620	26,302	46,710	3,540	106,605

The notes on pages 30 to 40 form part of these accounts

Balance Sheet

at 31 December 2006

Notes		**2006 £'000**	2005 £'000
10	**Fixed asset investments held at fair value through profit or loss**	**155,910**	141,845
	Current assets		
11	Debtors	**2,161**	1,152
	Cash at bank	**4,205**	1,834
		6,366	2,986
12	**Creditors:** amounts falling due within one year	**(35,639)**	(38,226)
	Net current liabilities	**(29,273)**	(35,240)
	Total assets less current liabilities	**126,637**	106,605
	Capital and reserves		
14	Share capital	**3,484**	3,433
15	Share premium account	**28,288**	26,620
15	Capital redemption reserve	**26,302**	26,302
15	Other capital reserves:		
	Realised reserve	**21,917**	14,415
	Unrealised reserve	**42,856**	32,295
15	Revenue reserve	**3,790**	3,540
	Equity shareholders' funds	**126,637**	106,605
16	**Net asset value per ordinary share**	**181.72p**	155.26p

The accounts were approved by the directors on 6 March 2007, and signed on their behalf by:

H J Twiss

Director

The notes on pages 30 to 40 form part of these accounts

Cash Flow Statement

for the year ended 31 December 2006

Notes		2006 £'000	2006 £'000	2005 £'000	2005 £'000
18	**Net cash inflow from operating activities**		**5,083**		4,761
	Servicing of finance				
	Bank overdraft and loan interest paid		**(2,008)**		(1,577)
	Taxation				
	Taxation recovered		**9**		7
	Financial investment				
	Purchase of investments	**(27,435)**		(26,410)	
	Sale of investments	**33,354**		34,526	
	Net cash inflow from financial investment		**5,919**		8,116
	Equity dividends paid		**(5,371)**		(5,540)
	Net cash inflow before financing		**3,632**		5,767
	Financing				
	Issue of shares	**1,719**		18,640	
	Share issue expenses	**(17)**		(405)	
	Redemption of zero dividend preference shares in subsidiary	**–**		(39,385)	
	(Repayment)/drawdown of loans	**(2,977)**		15,558	
	Net cash outflow from financing		**(1,275)**		(5,592)
19	**Increase in cash in the year**		**2,357**		175
	Reconciliation of net cash flow to movement in net debt				
	Increase in cash as above		**2,357**		175
	Cash outflow/(inflow) from repayment/(drawdown) of loans		**2,977**		(15,558)
	Exchange movements		**14**		(6)
	Movement in net debt		**5,348**		(15,389)
	Net debt at 1 January		**(35,224)**		(19,835)
19	**Net debt at 31 December**		**(29,876)**		(35,224)

The notes on pages 30 to 40 form part of these accounts

Notes to the Accounts

1 Accounting policies

a Basis of accounting

The accounts have been prepared on the historical cost basis of accounting, modified to include the revaluation of investments. The accounts have been prepared in accordance with applicable accounting standards and with the Statement of Recommended Practice *Financial Statements of Investment Trust Companies* ("the SORP") dated December 2005. All of the Company's operations are of a continuing nature.

b 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 and other key management personnel. 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 bid prices at the close of the period as issued by the London Stock Exchange.
– 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 on investments are taken to the income statement. The total column of the income statement represents the Company's profit and loss account. 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.

c Capital gains and losses

Realised and unrealised capital gains and losses are taken to the capital column in the income statement and transferred to other capital reserves.

d 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 is recognised on a time-apportionment basis and, if material, so as to reflect the effective yield on these securities. In accordance with FRS 16 – Current Taxation, franked investment income is shown net of the related tax credits.

e 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. On this basis, the Company charges to capital 75% of its finance costs and management fees (to the extent that the management fees relate to the maintenance or enhancement of the valuation of investments). All performance fees are charged to capital. Expenses which are incidental to the acquisition of an investment are charged to the income statement and allocated to capital reserves. Expenses which are incidental to the disposal of an investment which the Board considers not to be a material amount are accounted for in a similar way.

f 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 supplementary information 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.

Notes to the Accounts
continued

1 Accounting policies (continued)

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 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.

g 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.

h Trade receivables and trade payables
(i) Trade receivables – Other receivables do not carry any interest and are short term in nature and are accordingly stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. The directors consider that the carrying amount of trade and other receivables approximates to their fair value.
(ii) Trade payables – Other payables are non interest-bearing and are stated at their nominal value. The directors consider that the carrying amount of trade payables approximates to their value.

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

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

	2006 £'000	2005 £'000
Realised gains based on historical cost	**10,494**	5,200
Less: amounts recognised as unrealised in previous years	**(4,263)**	(2,811)
Realised gains based on carrying value at previous balance sheet date	**6,231**	2,389
Net movement in unrealised appreciation	**14,824**	16,972
Net foreign exchange movement	**14**	(6)
	21,069	19,355

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

	2006 £'000	2005 £'000
Franked:		
Listed – dividends	**5,191**	5,055
Unfranked:		
Listed – interest income	**1,280**	1,358
– dividend income	**367**	183
	1,647	1,541
	6,838	6,596

Notes to the Accounts

continued

4	Other interest receivable and similar income	2006 £'000	2005 £'000
	Bank interest	**35**	46
	Underwriting commission	**31**	46
		66	92

5	Management and performance fees	2006 Revenue return £'000	2006 Capital return £'000	2006 Total £'000	2005 Revenue return £'000	2005 Capital return £'000	2005 Total £'000
	Management fee	**133**	**399**	**532**	124	373	497
	Accounting, secretarial and administration	**133**	**–**	**133**	125	–	125
	Performance fee	**–**	**1,046**	**1,046**	–	662	662
	Irrecoverable VAT thereon	**42**	**246**	**288**	39	175	214
		308	**1,691**	**1,999**	288	1,210	1,498

A summary of the terms of the management agreement is given on pages 13 and 14 in the Report of the Directors.

6	Other administrative expenses (including irrecoverable VAT)	2006 Revenue return £'000	2006 Capital return £'000	2006 Total £'000	2005 Revenue return £'000	2005 Capital return £'000	2005 Total £'000
	Directors' fees (see Directors' Remuneration Report on pages 18 and 19)	**85**	**–**	**85**	87	–	87
	Auditors' remuneration –						
	for audit services	**12**	**–**	**12**	15	–	15
	for non-audit services	**2**	**–**	**2**	3	–	3
	Other expenses payable to the management company*	**33**	**–**	**33**	15	–	15
	Other expenses	**144**	**–**	**144**	189	–	189
	Re-organisation costs	**–**	**–**	**–**	–	173	173
		276	**–**	**276**	309	173	482

*Other expenses payable to the management company relate to the marketing and administration of the Henderson share savings schemes.

7	Finance costs	2006 £'000	2005 £'000
	On bank loans and overdrafts repayable within one year	**2,000**	1,432
	Less: allocated to capital	**(1,500)**	(1,074)
		500	358

Notes to the Accounts

continued

8 a **Taxation on ordinary activities**	**2006 Revenue return £'000**	**2006 Capital return £'000**	**2006 Total £'000**	2005 Revenue return £'000	2005 Capital return £'000	2005 Total £'000
Irrecoverable overseas tax	**14**	**–**	**14**	13	–	13
Tax relief on expenses charged to capital	**185**	**(185)**	**–**	204	(204)	–
Tax charge in respect of the current year	**199**	**(185)**	**14**	217	(204)	13

b The tax assessed for the year is lower than the standard rate of corporation tax in the UK of 30%. The differences are explained below:

	2006 Revenue return £'000	**2006 Capital return £'000**	**2006 Total £'000**	2005 Revenue return £'000	2005 Capital return £'000	2005 Total £'000
Net return on ordinary activities before taxation	**5,820**	**17,878**	**23,698**	5,733	14,645	20,378
Theoretical tax at UK corporation tax rate of 30% (2005: 30%)	**1,746**	**5,363**	**7,109**	1,720	4,394	6,113
Effects of:						
– UK dividends which are not taxable	**(1,557)**	**–**	**(1,557)**	(1,516)	–	(1,516)
– Increase in excess management expenses	**758**	**–**	**758**	456	–	456
– Expenses not deductible for tax purposes	**11**	**–**	**11**	77	–	77
– Irrecoverable overseas tax suffered	**14**	**–**	**14**	13	–	13
– Gains on investments held at fair value	**–**	**(6,321)**	**(6,321)**	–	(5,807)	(5,807)
– Adjustment for tax relief on expenses charged to capital	**(773)**	**773**	**–**	(533)	533	–
– ZDP redemption provision	**–**	**–**	**–**	–	676	676
Tax charge in respect of the current year	**199**	**(185)**	**14**	217	(204)	13

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

c Factors that may affect future tax charges

The Company has expenses in excess of taxable income of £5,679,000 (2005: £3,146,000) and surplus eligible unrelieved foreign tax of £51,000 (2005: £36,000) that are available to offset future taxable revenue. A deferred tax asset of £1,755,000 (2005: £980,000) 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 Accounts

continued

9 Return per ordinary share

The return per ordinary share is based on earnings attributable to the ordinary shares of £23,684,000 (2005: £20,365,000) and on the 69,489,647 weighted average number of ordinary shares in issue during the year (2005: 59,111,073).

The revenue return per ordinary share is based on the revenue earnings attributable to the ordinary shares of £5,621,000 (2005: £5,516,000) and on the 69,489,647 weighted average number of ordinary shares in issue during the year (2005: 59,111,073).

The capital return per ordinary share is based on the net capital gains for the year of £18,063,000 (2005: £14,849,000) and on the 69,489,647 weighted average number of ordinary shares in issue during the year (2005: 59,111,073).

10 Fixed asset investments held at fair value through profit or loss

	£'000
Valuation at 1 January 2006	**141,845**
Unrealised appreciation at 1 January 2006	**(32,295)**
Cost of investments at 1 January 2006	**109,550**
Purchases at cost	**27,435**
Sales at cost	**(23,931)**
Cost of investments at 31 December 2006	**113,054**
Unrealised appreciation at 31 December 2006	**42,856**
Valuation at 31 December 2006	**155,910**

Purchase transaction costs for the year to 31 December 2006 were £133,000 (2005: £124,000). These comprise mainly stamp duty and commission. Sale transaction costs for the year to 31 December 2006 were £44,000 (2005: £36,000). The total combined costs were £177,000 (2005: £160,000).

11 Debtors

	2006 £'000	2005 £'000
Sales for future settlement	**1,071**	–
Taxation recoverable	**24**	18
Prepayments and accrued income	**1,066**	1,134
	2,161	1,152

12 Creditors: amounts falling due within one year

	2006 £'000	2005 £'000
Bank loans (unsecured)	**34,081**	37,058
Accruals	**1,558**	1,168
	35,639	38,226

Details of repayment dates and the weighted average interest rate payable on bank loans are disclosed in note 13b.

Notes to the Accounts
continued

13 Derivatives and other financial instruments

a Management of risk

The Company's financial instruments may comprise:

- Equity shares, corporate bonds, preference shares and other fixed interest securities held within the portfolio;
- Short-term loans used to finance its investing activities;
- Derivative transactions comprising traded options and interest rate futures, the purpose of which is to manage market price and interest rate risks arising from its investment activities; and
- Cash and short-term debtors and creditors which arise from its investing activities.

The risks arising from these financial instruments are described below. The Company is not exposed to any substantial risk arising from fluctuations in foreign currency exchange rates.

Market price risk

An investment trust is exposed to market risk due to fluctuations in the market prices of the investments held in its portfolio. It is the Board's policy to hold an appropriate spread of investments in the portfolio in order to reduce the risk arising from factors specific to a particular sector. The Company may use traded options to manage market price risk. The Portfolio Manager actively monitors market prices throughout the year and reports to the Board which meets regularly in order to consider investment strategy.

Liquidity risk

The Company's assets comprise mainly readily realisable securities, which can be sold to meet funding commitments if necessary. The maturities of the Company's existing borrowings are set out in part b to this note.

Interest rate risk

The majority of the Company's assets comprise equity shares, bonds, preference shares, bank balances and short-term deposits. The equity shares neither pay interest nor carry a maturity date. Returns from bonds and preference shares are fixed at the time of purchase, as the fixed coupon payments are known, as are final redemption proceeds. This means that if a bond is held until its redemption date, the total return achieved is unaltered from its purchase date. However, over the life of a bond the market price at any given time will depend on the market environment at that time. Therefore, a bond sold before its redemption date may have a different price from its purchase cost and a profit or loss may be incurred. Bond and preference share prices are determined by market perception as to the appropriate level of yields given the economic background. Key determinants include economic growth prospects, inflation, the Government's fiscal position, short-term interest rates and international market comparisons. The Portfolio Manager takes all these factors into account when making investment decisions as well as considering the financial position of the potential investee company.

The Company has drawn down principally sterling loans to finance its investment operations and these liabilities do not expose the Company to any material risk arising from fluctuations in interest rates as the loans are for fixed terms. There is, however, an interest rate risk when such loans are repaid and new loans are required by the Company. These new loans will carry interest repayments priced at the time they are drawn down.

Counterparty risk

Certain transactions in securities and derivatives that the Company may enter into expose it to the risk that the counterparty will not deliver the investment (purchase) or cash (sale) after the Company has fulfilled its responsibilities. These risks are monitored by the Manager in pursuance of the investment objective of the Company.

Credit risk

The Company's principal financial assets are bank balances and cash, other receivables and investments, which represent the Company's maximum exposure to credit risk in relation to financial assets. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. The Company has no significant concentration of credit risk, with exposure spread over a large number of counterparties.

Notes to the Accounts

continued

13 Derivatives and other financial instruments (continued)

Fair value risk

Other financial assets and liabilities of the Company have been included in the balance sheet at fair value.

b Financial assets

The Company's financial assets comprise equity investments, convertible bonds, fixed interest securities, short-term trade receivables and cash balances.

The currency cash flow profile of those financial assets at 31 December 2006 was:

	Sterling £'000	US dollar £'000	Euro £'000	Total £'000
Fixed asset investments held at fair value through profit or loss	**151,354**	**789**	**3,767**	**155,910**
Short-term trade receivables	**1,071**	**–**	**–**	**1,071**
Cash at bank	**4,203**	**1**	**1**	**4,205**
	156,628	**790**	**3,768**	**161,186**

The currency cash flow profile of those financial assets at 31 December 2005 was:

	Sterling £'000	US dollar £'000	Euro £'000	Total £'000
Fixed asset investments held at fair value through profit or loss	139,005	–	2,840	141,845
Cash at bank	1,824	10	–	1,834
	140,829	10	2,840	143,679

Financial liabilities

The Company finances its investment activities through its ordinary share capital, reserves and borrowing. Financial liabilities comprise the multi-currency loan facility, shares and other short-term trade payables.

The currency cash flow profile of those financial liabilities at 31 December 2006 was:

	Sterling £'000	US dollar £'000	Total £'000
Multi-currency loan facility	**33,304**	**777**	**34,081**
Short-term trade payables	**1,558**	**–**	**1,558**
	34,862	**777**	**35,639**

Notes to the Accounts
continued

13 Derivatives and other financial instruments (continued)

The currency cash flow profile of those financial liabilities at 31 December 2005 was:

	Sterling £'000	Total £'000
Multi-currency loan facility	37,058	37,058
Short-term trade payables	1,168	1,168
	38,226	38,226

At 31 December 2006 the Company had fixed rate short-term sterling loans under the Loan Facility (see note 13c) totalling £33.3 million, repayable on 2 January 2007 and 18 January 2007. The weighted average interest rate payable on these loans was 5.77%. The Company also had a fixed rate short-term US dollar loan, under the same facility, amounting to £777,000 and repayable on 10 January 2007. The interest rate payable on this loan was 5.85% (2005: fixed rate short-term sterling loans totalling £37.1 million with a weighted average interest rate of 5.17% repayable on 6 January 2006 and 16 January 2006).

Interest rate risk

The carrying amount, by maturity date, of the Company's financial instruments at 31 December 2006 was:

At 31 December 2006	**In 1 year or less £'000**	**In more than 1 year but not more than 3 years £'000**	**In more than 3 years but not more than 5 years £'000**	**In more than 5 years £'000**	**No maturity date £'000**	**Total £'000**
Fair value interest rate risk						
Financial assets at fair value through profit or loss						
– Fixed asset investments	**–**	**1,549**	**1,215**	**14,986**	**12,001**	**29,751**
Financial liabilities						
– Multi-currency loan facility	**(34,081)**	**–**	**–**	**–**	**–**	**(34,081)**
	(34,081)	**1,549**	**1,215**	**14,986**	**12,001**	**(4,330)**
Cash flow interest rate risk						
Loans and receivables						
– Cash at bank	**4,205**	**–**	**–**	**–**	**–**	**4,205**
	4,205	**–**	**–**	**–**	**–**	**4,205**
No interest rate risk						
Financial assets at fair value through profit or loss						
– Fixed asset investments	**126,159**	**–**	**–**	**–**	**–**	**126,159**
Loans and receivables						
– Short-term trade receivables	**1,071**	**–**	**–**	**–**	**–**	**1,071**
	127,230	**–**	**–**	**–**	**–**	**127,230**
Other financial liabilities						
– Short-term trade payables	**(1,558)**	**–**	**–**	**–**	**–**	**(1,558)**
	125,672	**–**	**–**	**–**	**–**	**125,672**

Notes to the Accounts
continued

13 Derivatives and other financial instruments (continued)

The carrying amount, by maturity date, of the Company's financial instruments at 31 December 2005 was:

At 31 December 2005	In 1 year or less £'000	In more than 1 year but not more than 3 years £'000	In more than 3 years but not more than 5 years £'000	In more than 5 years £'000	No maturity date £'000	Total £'000
Fair value interest rate risk						
Financial assets at fair value through profit or loss						
– Fixed asset investments	1,932	620	1,054	15,839	15,741	35,186
Financial liabilities						
– Multi-currency loan facility	(37,058)	–	–	–	–	(37,058)
	(35,126)	620	1,054	15,839	15,741	(1,872)
Cash flow interest rate risk						
Loans and receivables						
– Cash at bank	1,834	–	–	–	–	1,834
	1,834	–	–	–	–	1,834
No interest rate risk						
Financial assets at fair value through profit or loss						
– Fixed asset investments	106,659	–	–	–	–	106,659
Other financial liabilities						
– Short-term trade receivables	(1,168)	–	–	–	–	(1,168)
	105,491	–	–	–	–	105,491

The fixed interest portfolio on page 8 shows for all material fixed asset investments that are subject to interest rate risk:
– the dates when they are contracted to mature;
– the interest rate payable; and
– the functional currency of their cash flows (all sterling except where indicated otherwise).

c Loan facility

At 31 December 2006, the Company had a committed loan facility with ING Bank NV of £43.5 million, for a period of five years from 9 March 2005 (2005: same facility). Loans drawn down under the facility must be for amounts of not less than £500,000 and are for terms of either 1, 2, 3 or 6 months.

Notes to the Accounts

continued

14	**Share capital**	**2006 £'000**	2005 £'000
	Authorised		
	940,000,000 ordinary shares of 5p	**47,000**	47,000
	Allotted, issued and fully paid		
	69,687,798 ordinary shares of 5p (2005: 68,662,798)	**3,484**	3,433

During the year 1,025,000 (2005: 12,633,933) shares were issued for a total consideration of £1,719,000 (2005: £18,218,000). Further details can be found on page 14.

15	**Reserves**	**Share premium account £'000**	**Capital redemption reserve £'000**	**Realised reserve £'000**	**Unrealised reserve £'000**	**Revenue reserve £'000**
	Reserves at 1 January 2006	26,620	26,302	14,415	32,295	3,540
	Transfer on disposal of investments	–	–	4,263	(4,263)	–
	Net gains from investments	–	–	6,231	14,824	–
	Foreign exchange gains	–	–	14	–	–
	Issue of ordinary shares	1,668	–	–	–	–
	Management fee and finance costs charged to capital	–	–	(3,191)	–	–
	Corporation tax relief thereon	–	–	185	–	–
	Net revenue after tax for the year	–	–	–	–	5,621
	Dividends paid	–	–	–	–	(5,371)
	At 31 December 2006	**28,288**	**26,302**	**21,917**	**42,856**	**3,790**

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 £126,637,000 (2005: £106,605,000) and on the 69,687,798 ordinary shares of 5p in issue at 31 December 2006 (2005: 68,662,798 ordinary shares of 5p).

17 Contingent liabilities

There were no partly paid shares or underwriting commitments at 31 December 2006 (2005: £nil).

18	**Reconciliation of net return on ordinary activities before finance costs and taxation to net cash inflow from operating activities**	**2006 £'000**	2005 £'000
	Net return before finance costs and taxation	**25,698**	24,063
	Gains on investments held at fair value through profit or loss	**(21,069)**	(19,355)
	Decrease/(increase) in accrued income	**50**	(84)
	Increase in creditors	**424**	165
	Tax on investment income	**(20)**	(28)
	Net cash inflow from operating activities	**5,083**	4,761

Notes to the Accounts

continued

19 Analysis of changes in net debt

	1 January 2006 £'000	Cash flow £'000	Exchange movement £'000	31 December 2006 £'000
Cash at bank	**1,834**	**2,357**	**14**	**4,205**
Debt due within one year	**(37,058)**	**2,977**	**–**	**(34,081)**
	(35,224)	**5,334**	**14**	**(29,876)**

20 Transactions with the Manager

The Company has appointed wholly-owned subsidiary companies of Henderson Global Investors (Holdings) plc ("Henderson") and BNP Paribas Fund Services UK Limited to provide investment management, UK custodial, accounting, administrative and company secretarial services. Details of the fee arrangements for these services are given on pages 13 and 14 in the Report of the Directors. The total of the fees payable under this agreement by the Company to Henderson in respect of the year ended 31 December 2006 was £1,711,000 excluding VAT (2005: £1,284,000) of which £1,204,000 was outstanding at 31 December 2006 (2005: £838,000).

In addition to the above services, Henderson has provided the Company with share plan marketing and administration services during the year. The total fees payable for these services for the year ended 31 December 2006 (excluding VAT) amounted to £29,000 (2005: £13,000). At 31 December 2006, £12,000 was outstanding (2005: £9,000).

21 Proposed dividends

In respect of the year ended 31 December 2006, third and fourth interim dividends of 2.015p each are proposed. The aggregate cost of these dividends based on the number of shares eligible is estimated to be £2,808,000. These dividends will be reflected in the 2007 accounts.

	£'000
Revenue available for distribution by way of dividend for the year	**5,621**
First interim dividend (1.9375p)	**(1,350)**
Second interim dividend (1.9375p)	**(1,350)**
Third interim dividend (2.015p) paid on 31 January 2007	**(1,404)**
Fourth interim dividend (2.015p) payable on 30 April 2007	**(1,404)**
Undistributed revenue for section 842 purposes*	**113**

*Undistributed revenue comprises approximately 2% of income from investments of £6,838,000 (see note 3).

Notice of Annual General Meeting

Notice is hereby given that the eighteenth Annual General Meeting of Henderson High Income Trust plc will be held at 4 Broadgate, London EC2M 2DA on Tuesday 15 May 2007 at 11.30am for the transaction of the following business:

Ordinary Business

1 To receive the report of the directors and the audited accounts for the year ended 31 December 2006.

2 To approve the directors' remuneration report for the year ended 31 December 2006.

3 To re-elect Mr H J Twiss as a director of the Company.

4 To re-elect Mr C Dunkerley as a director of the Company.

5 To appoint the auditors, RSM Robson Rhodes LLP, who were appointed during the year and special notice having been received.

6 To authorise the directors to determine the remuneration of the auditors.

Special Business

To consider and, if thought fit, pass the following resolutions:

as an Ordinary Resolution

7 THAT, in accordance with Article 97 of the Articles of Association of the Company, the maximum aggregate amount of the fees that may be paid to the directors of the Company pursuant to that Article 97 (excluding amounts payable under any other provision of the Articles of Association of the Company) be and is hereby increased from £100,000 to £150,000 per annum.

as an Ordinary Resolution

8 THAT the directors be and are hereby generally and unconditionally authorised in substitution for all existing authorities to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985 ("the Act")) up to a maximum aggregate nominal amount of £348,438 (being 10% of the Company's issued ordinary share capital on 6 March 2007) PROVIDED THAT this authority shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution save that the said authority shall allow and enable the directors to make an offer or agreement before the expiry of that authority which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

as a Special Resolution

9 THAT, subject to the passing of resolution 8, the directors be and are hereby empowered pursuant to Section 95 of the Companies Act 1985 ("the Act") to allot equity securities (within the meaning of Section 94 of the Act) and/or where such allotment constitutes an allotment of equity securities by virtue of Section 94(3A) of the said Act, for cash, pursuant to the authority conferred on them by the passing of resolution 8 in accordance with Section 80 of the Act, as if sub-section (1) of Section 89 of the Act did not apply to any such allotment PROVIDED THAT this power shall be limited:

(a) to the allotment of equity securities whether by way of a rights issue, open offer or otherwise to ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate to the respective numbers of ordinary shares held by them subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or local or practical problems under the laws of, or the requirements of, any regulatory body or any stock exchange in any territory or otherwise howsoever;

(b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to a maximum aggregate nominal value of £348,438

Notice of Annual General Meeting

continued

(being 10% of the Company's issued ordinary share capital on 6 March 2007); and

(c) to the allotment of equity securities at a price not less than the Net Asset Value per share

and shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution save that the directors may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.

as a Special Resolution

10 That the Company be and is hereby generally and unconditionally authorised in accordance with Section 166 of the Act to make market purchases (within the meaning of Section 163 of the Act) of ordinary shares of 5p each in the capital of the Company ("ordinary shares") upon and subject to the following conditions:

(a) the maximum number of ordinary shares hereby authorised to be purchased shall be 14.99% of the Company's ordinary shares in issue at the date of the Annual General Meeting (equivalent to 10,446,200 ordinary shares at the date of this Notice);

(b) the maximum price (exclusive of expenses) which may be paid for an ordinary share shall not exceed 105% of the average of the middle market quotations for the ordinary shares as taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the date of purchase or such other amount as may be specified by the UK Listing Authority from time to time;

(c) the minimum price (exclusive of expenses) which may be paid for an ordinary share shall be 5p, being the nominal value per ordinary share;

(d) the authority hereby conferred will expire at the conclusion of the Annual General Meeting of the Company in 2008, or, if earlier, on the expiry of 18 months from the passing of this resolution, unless such authority is renewed prior to such time; and

(e) the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of ordinary shares pursuant to any such contract provided that all ordinary shares purchased pursuant to the said authority shall be either

(i) cancelled immediately upon completion of the purchase; or

(ii) held, sold, transferred or otherwise dealt with as treasury shares in accordance with the provisions of the Companies Act 1985.

By order of the Board

D J Trickett ACIS
For and on behalf of
Henderson Secretarial Services Limited
Secretary
6 March 2007

Registered Office:
4 Broadgate, London EC2M 2DA

Notice of Annual General Meeting

continued

Notes

1 All members of the Company are entitled to attend and vote at the Annual General Meeting. A shareholder may appoint one or more proxies to attend and, on a poll, vote on his or her behalf. A proxy need not be a member of the Company.

2 A form of proxy is enclosed. To be valid the form of proxy must be completed and deposited at the office of the Company's Registrar (Computershare Investor Services PLC, PO Box 1075, Bristol BS99 3FA) at least 48 hours before the time appointed for holding the meeting. The return of the form of proxy duly completed will not preclude a member from attending and voting in person at the meeting.

3 Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, only those shareholders registered in the register of members of the Company at 11.30am on 13 May 2007 shall be entitled to attend and/or vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after 11.30am on 13 May 2007 shall be disregarded in determining the rights of any person to attend or vote at the meeting. In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names stand in the register in respect of the joint holding.

4 The register of directors' interests, kept by the Company in accordance with the requirements of the Companies Act 1985, will be available for inspection at the meeting.

5 By attending the meeting, members and their proxies and representatives are understood by the Company to have confirmed their agreement to receive any communications (including communications relating to the Company's securities) made at the meeting.

Annual General Meeting Venue

Shown left is a map of the location of Henderson Global Investors where the AGM will be held at 11.30am on Tuesday 15 May 2007.

■ Henderson Global Investors,
4 Broadgate, London EC2M 2DA

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
1997	£86.9m	–	165.2p	–	153.0p	6.70p
1998	£92.4m	–	175.6p	–	160.0p	6.90p
1999	£92.6m	–	176.1p	–	149.5p	7.10p
2000	£99.0m	136.7p	188.2p	126.5p	179.5p	8.55p
2001	£97.2m	127.6p	183.3p	131.3p	195.8p	9.90p
2002	£84.2m	94.7p	155.0p	97.5p	161.8p	9.90p
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**

The net asset value and market price figures shown in the "per unit" columns above prior to the year 2000 are in respect of the former ordinary shares of 25p. The figures for the dividends per ordinary share relate to the ordinary shares of 25p each up to 15 August 2000 and to the ordinary shares of 5p each thereafter.

†Restated in accordance with new accounting policies.
*The level of dividends was reduced following the capital reorganisation in September 2005.

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

Over the year to 31 December 2006, the Net Asset Value (total return) rose 23.2% compared to a rise in the benchmark index (75% FTSE All-Share Index and 25% FTA Government All Stocks Index) of 12.8%.

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 include the proportions of management fee and finance costs charged to capital, the retained revenue and positive impact of issuing ordinary shares and are shown below.

Portfolio performance	**Performance of Composite Index (total return)**		**12.8%**
	Performance of portfolio against benchmark		
	Due to asset allocation	1.6%	
	Due to stock selection	5.9%	
	Due to gearing	5.0%	
			12.5%
			25.3%
Other factors	Retained revenue	-0.1%	
	Management fee and finance costs charged to capital	-2.1%	
	Impact of issuing ordinary shares	0.1%	
			-2.1%
	Performance of Net Asset Value (total return)		**23.2%**

General Shareholder Information

Release of Results
The full year results were announced on 6 March 2007. The half year results will be announced in early August.

Annual General Meeting
The AGM of Henderson High Income Trust plc will be held in London at 11.30am on 15 May 2007. The notice of this meeting setting out the business that will be proposed is on pages 41 and 42.

Dividend Payment Dates
Dividends are normally paid on the ordinary shares quarterly, on the last business day in July (first interim), October (second interim), January (third interim) and April (fourth interim).

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 page 47) 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.

Internet
Details of the market price and net asset value of the shares can be found on the Company's website. The address is **www.hendersonhighincome.com**

Shareholders who hold their shares in certificated form can check their holdings with the Registrar, Computershare Investor Services PLC (via **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 hand corner of your share certificate.

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

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

Investors in the Henderson ISAs and savings schemes receive all shareholder communications. A voting instruction form is provided to facilitate voting at general meetings of the Company.

Disability Act
Copies of this Report and Accounts 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.

General Shareholder Information
continued

Capital Gains Tax
The market prices of the Company's shares and units at the close of business on 17 August 2000, the first day of dealings in the shares and units following the capital reorganisation that came into effect on 16 August 2000, were as follows:

- Ordinary shares of 5p in Henderson High Income Trust plc: 117p
- Zero dividend preference shares of 50p in Henderson High Income Trust Securities plc: 50p
- Units (each unit comprising one ordinary share of 5p in Henderson High Income Trust plc and one zero dividend preference share of 50p in Henderson High Income Trust Securities plc): 165p

On 30 September 2005 all the zero dividend preference shares in Henderson High Income Trust Securities plc were redeemed and new ordinary shares of 5p each were issued by Henderson High Income Trust plc to shareholders who elected to receive them at the following prices:

- Zero dividend preference shares of 50p each were redeemed at a price of 74.87p per ZDP
- Ordinary shares of 5p each were issued at a price of 147.25p per share

The calculation of the tax on chargeable gains will depend on personal circumstances. The above information is of a general nature and is not exhaustive. We are unable to give tax advice or assist with calculations for capital gains tax. If you are in any doubt about your personal tax position, you are recommended to contact your professional adviser.

Analysis of Shareholders
at 31 December 2006

	Number of holders of ordinary shares	Number of ordinary shares held
Individual holders*	3,869	24,040,226
Institutional holders**	1,346	45,647,572
	5,215	69,687,798

*Individual holders include participants in the Henderson ISA and savings schemes.

**Institutional holders include nominee and other companies which hold shares on behalf of individual investors, including PEP and ISA participants.

Directors and other Information

Directors
H J Twiss (Chairman)
V P Bazalgette
A L C Bell
C Dunkerley
The Rt Hon Sir John Stanley MP

Registered Office
4 Broadgate
London EC2M 2DA
Telephone: 020 7818 1818
Facsimile: 020 7818 1819

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: A A Crooke
Deputy Portfolio Manager: B Lofthouse

Secretary
Henderson Secretarial Services Limited,
represented by D J Trickett ACIS

Registrar
Computershare Investor Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH
Telephone: 0870 707 1039

Auditors
RSM Robson Rhodes LLP
30 Finsbury Square
London
EC2P 2YU

Stockbrokers
JPMorgan Cazenove
20 Moorgate
London EC2R 6DA

Solicitors
Slaughter and May
One Bunhill Row
London EC1Y 8YY

Itshenderson
(ISA and share plan schemes)
Itshenderson
PO Box 4605
Worthing
BN99 6QY
Telephone: 0845 712 5432

Other Henderson ISAs and PEPs
Henderson Investment Management Limited
Block C, Western House
Lynch Wood Business Park
Peterborough PE2 6BP
Telephone: 0800 832 832

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.

The AIC net asset value total return on ordinary shares over one year differs from the net asset value total return including net dividends reinvested calculated from the financial statements of 25.8% 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
Total assets including all current liabilities being used for investment purposes (irrespective of how long the debt has to run until repayment) divided by shareholders' funds.

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 has been placed in members' voluntary liquidation.

Henderson High Income Trust plc is managed by

Henderson Global Investors

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