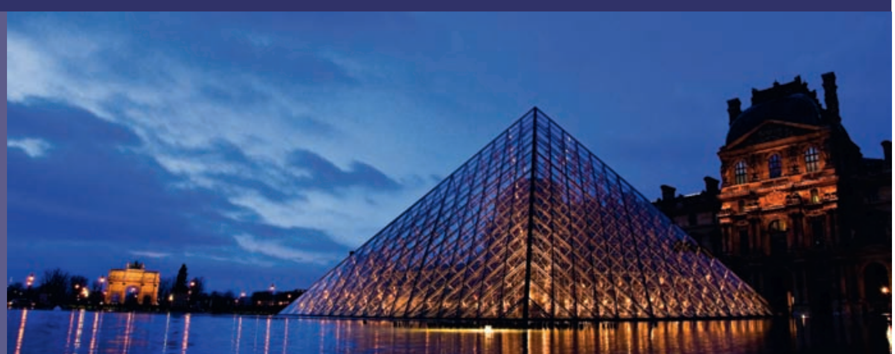
Henderson European Focus Trust plc (formerly Gartmore European Investment Trust p.l.c.)

Annual Report and Financial Statements for the year ended 30 September 2011



Henderson European Focus Trust plc

Company name	The Company changed its name from Gartmore European Investment Trust p.l.c. on 25 November 2011 in order to reflect the change of management group following the acquisition of Gartmore Group Limited by Henderson Group plc in April 2011 and the change of investment policy approved on that date.
Objective and policy[1]	The Company seeks to maximise total return from a focused portfolio of listed Continental European stocks. The portfolio is unconstrained by benchmark and contains between 50 to 60 holdings at any one time. The portfolio has a bias to larger capitalised companies but it is able to invest in the equity of mid and smaller capitalised companies. The exposure to smaller capitalised stocks is limited to 10% of net asset value. Full details are given on pages 12 and 13.
Benchmark Index	Performance is measured against the FTSE World Europe ex UK Index on a total return basis in sterling terms.[2]
Manager	Henderson Global Investors Limited is appointed to manage the investment portfolio.
Board	The Company has an independent Board of Directors which monitors the performance of the Company and considers the investment strategy.
Website	Information about the Company can be found on the website **www.hendersoneuropeanfocus.com**
Savings	As well as investing directly, shares can be purchased through dealing platforms and held in share plans, ISAs or pensions. Links to some dealing platforms can be found via the website.
	Potential investors are reminded that the value of investments and the income from them may go down as well as up and investors may not receive back the full amount invested. Tax benefits may vary as a result of statutory changes and their value will depend on individual circumstances.

[1]The shareholders approved the stated investment objective and policy on 25 November 2011. Details of the previous investment objective and policy, which was in place during the year under review, are included on page 12.

[2]Prior to 1 October 2011 performance was measured against the FTSE World Europe ex UK Index on a capital only basis.

Financial Highlights

	30 September 2011	30 September 2010	Change %
Shareholders' funds			
Net assets (£'000)	**103,913**	144,945	-28.3[1]
Net asset value ("NAV") per ordinary share	**580.0p**	645.9p	-10.2
Share price			
Market capitalisation of ordinary shares in issue, with full voting rights (£'000)	**88,488**	131,397	-32.7
Middle market price	**493.88p**	585.50p	-15.6
Average discount to NAV per share over the year	**9.1%**	5.3%	
Benchmark Index			
FTSE World Europe ex UK Index in sterling terms (capital only)[2]	**305.3**	366.6	-16.7
Gearing			
Actual gearing	**2.5%**	6.3%	
Maximum gearing authorised by the Board[3]	**15.0%**	15.0%	

	Year to 30 September 2011	Year to 30 September 2010
Total return to equity shareholders (£,000)		
Revenue return after taxation	**3,511**	3,906
Capital loss after taxation	**(13,261)**	(5,490)
Total return after taxation	**(9,750)**	(1,584)
Total return per ordinary share[4]		
Revenue	**18.29p**	15.69p
Capital	**(69.09)p**	(22.06)p
Total	**(50.80)p**	(6.37)p
Dividend per ordinary share	**17.75p**	16.50p
Total expense ratio	**0.8%**[5]	1.1%

Highs and lows	High	Low
Year to 30 September 2011		
Net asset value per ordinary share[6]	730.4p	540.1p
Middle market price per ordinary share	657.75p	474.00p

[1] The Company's net assets were reduced during the year by £28,020,000 utilised in the repurchase of 4,524,820 ordinary shares to be held in treasury. In broad terms, this reduction mainly reflects the difference between the decrease of 28.3% in net assets and the decrease of 10.2% in net asset value per ordinary share for the year to 30 September 2011.

[2] With effect from 1 October 2011 the total return index is used as the Company's Benchmark.

[3] With effect from 25 November 2011 the maximum gearing limit has been increased to 20.0%.

[4] Based on the weighted average number of shares in issue during the year.

[5] The Company's total expense ratio has decreased in the year ended 30 September 2011, mainly as a result of the management fee being waived for three months.

[6] Excluding current year revenue.

Sources: Henderson Global Investors Limited, Datastream.

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Financial Calendar

Key dates for 2011/2012 are set out below:

Interim dividend (in lieu of final) payable	30 December 2011
Annual general meeting	27 January 2012
Half year results announced	May 2012
Final results announced	December 2012

Chairman's Statement

Rodney Dennis

Performance

Over the year to 30 September 2011, the net asset value ("NAV") per ordinary share (including undistributed revenue) fell by 10.2% and the FTSE World Europe ex UK Index in sterling terms (capital only) ("the Benchmark Index") declined by 16.7%. Over the same period, the middle market price of the Company's ordinary shares fell by 15.6%, from 585.50p to 493.88p. Over the five-year and ten-year periods to 30 September 2011, the NAV per ordinary share, in capital terms, increased by 3.0% and 71.6% respectively, compared with a decrease of 17.1% and an increase of 22.9% in the Benchmark Index over each of these respective time periods.

Revenue and dividend

The revenue return for the year to 30 September 2011 was 18.29p per ordinary share, compared with 15.69p for the previous year.

The Board has declared an interim dividend, in lieu of a final, of 17.75p per ordinary share, an increase of 7.6% on the previous year. The dividend will be paid on 30 December 2011 to shareholders on the register on 16 December 2011.

Management company

Following the acquisition of Gartmore Group Limited by Henderson Group plc in April 2011, the management, administration and company secretarial services provided by Gartmore Investment Limited are now undertaken by Henderson Global Investors Limited and its subsidiaries. The day-to-day management of the Company's portfolio continues to be undertaken by John Bennett.

Change of investment policy

In accordance with proposals put to shareholders at a general meeting on 25 November 2011, as detailed in a circular to shareholders dated 4 November 2011, the Company's investment policy, performance fee arrangements and Benchmark Index have all been amended. Full details are given in the Report of the Directors.

Change of name

As noted in the circular sent to shareholders in relation to the change of investment policy, in order to align the Company's name with that of the new management company and to reflect the change in investment policy, the name of the Company was changed from Gartmore European Investment Trust p.l.c. to Henderson European Focus Trust plc on 25 November 2011.

Discount management policy

Despite the Company's sound long-term investment performance, the well documented concerns over sovereign debt and speculation surrounding the future of the eurozone left European equities distinctly out of favour for much of the financial year. This resulted in the Company having to purchase a significant number of ordinary shares in the early part of the financial year, consistent with our approach to managing the discount. As a consequence, it was necessary to seek shareholder approval to renew the Company's buy-back authority at a general meeting of the Company on 1 December 2010 and at the annual general meeting on 28 January 2011.

During the year to 30 September 2011, the Company repurchased 4,524,820 ordinary shares (20.1% of the shares in issue at the beginning of the reporting period), to be held in treasury, at a cost of £28.0 million. Over the year, the ordinary shares traded at a daily average discount of 9.1%, compared with a European investment trust sector average of 11.1%. Since 30 September 2011 the Company has bought back a further 555,995 ordinary shares. At 5 December 2011 the share price discount was 13.5%.

As reported in my letter to shareholders dated 4 November 2011 setting out the details of a proposed change in investment policy, the policy on share buy-backs had been more relaxed over recent periods aiming to maintain the discount below 10%, as the Company was finding itself the focus of short-term traders because of its discount protection

Chairman's Statement

continued

policy being significantly tighter than other members of its peer group. The Board is pleased that the changes to the Company's investment policy were approved and recognises that the more conviction based portfolio requires a less prescriptive discount management policy as liquidity in the portfolio will be reduced.

In adopting a more flexible share buy-back policy, the Board recognises that the aim over the longer term should be to provide a reasonably strong and consistent rating for the Company's shares, ideally better than the average rating of the Company's peer group. However, day-to-day fluctuations and abnormal market conditions will inevitably impact on the practical application of buy-back policy in highly volatile markets.

The Board and Manager will, however, endeavour to provide additional secondary market liquidity by continuing to use share buy-backs even with the more focused approach to portfolio construction and more concentrated holdings of stocks.

Annual general meeting ("AGM")

At the AGM on 27 January 2012, the Directors will again be seeking to renew the authorities previously granted to allot and to buy-back shares for cancellation or to be held in treasury. The passing of these resolutions will continue to provide your Board with flexibility to add shareholder value should the opportunity arise. Shareholders are also being asked to renew the authority to call general meetings at short notice. Further details are provided in a separate letter to shareholders which includes the notice of AGM. I hope you will give these resolutions your full consideration and support.

Outlook

The crisis engulfing the Eurozone has only intensified in the year under review. The outlook for the current financial year is again clouded by uncertainty, with some European economies facing major headwinds to growth for some time to come. Indeed, while the immediate headlines are focused upon Europe, the difficulties are not unique to the so called Old Continent. One need only cast an eye across the Atlantic to identify equal if not greater challenges in the shape of too much debt and too little growth.

It is clear, then, that in a deleveraging era, the world economy looks set to struggle to generate the kind of growth rates many have grown accustomed to. Sluggish growth rates are the norm in a post-crisis, deleveraging world. Thankfully, while politicians remain in some denial of this fact, European equity markets have gone a very long way to discounting a new, low growth era.

It seems easy to forget that the entry price at which an investor commits to a situation is a key determinant between success and failure. At a time when European equities have already fallen to levels discounting recession it is worth reminding ourselves that our Manager remains committed to a proven, disciplined investment process in the quest to add value for shareholders. Thus, we consider that the Company is well placed to capitalise upon the many bottom up opportunities so often presented amidst such apparent top down gloom.

Rodney Dennis
Chairman
7 December 2011

Historical Performance

Ten year record

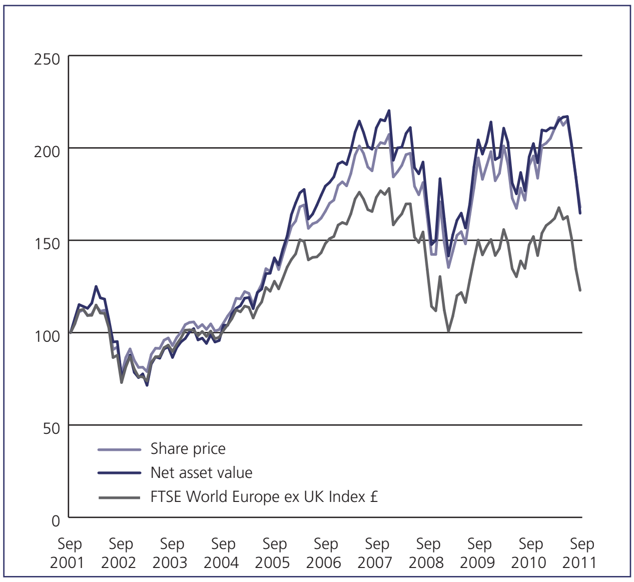
	Net assets (£'000)	Net asset value per ordinary share (basic) p	Net asset value per ordinary share (diluted)[1] p	Mid-market price per ordinary share p	Dividend per share p	Revenue return per share p	Total return per share p
30 September 2001	195,007	347.5	333.4	300.00	3.00	4.01	(159.14)
30 September 2002	147,930	263.5	258.7	227.50	3.00	3.11	(80.96)
30 September 2003	180,482	321.5	310.3	259.75	3.00	3.45	60.93
30 September 2004	210,877	352.0		312.00	4.35	4.79	45.45
30 September 2005[2]	279,605	470.4		421.00	6.00	7.46	118.23
30 September 2006	322,093	555.4		538.00	12.00	8.78	96.35
30 September 2007	219,515	667.8		632.50	8.00	7.12	124.53
30 September 2008[3]	161,739	551.3		505.50	14.00	15.12	(108.73)
30 September 2009	176,766	657.0		613.00	14.00	15.63	110.55
30 September 2010	144,945	645.9		585.50	16.50	15.69	(6.37)
30 September 2011	**103,913**	**580.0**		**493.88**	**17.75**	**18.29**	**(50.80)**

[1] The warrants were repurchased for cancellation in January 2004 and so no diluted net asset value is stated after that time.

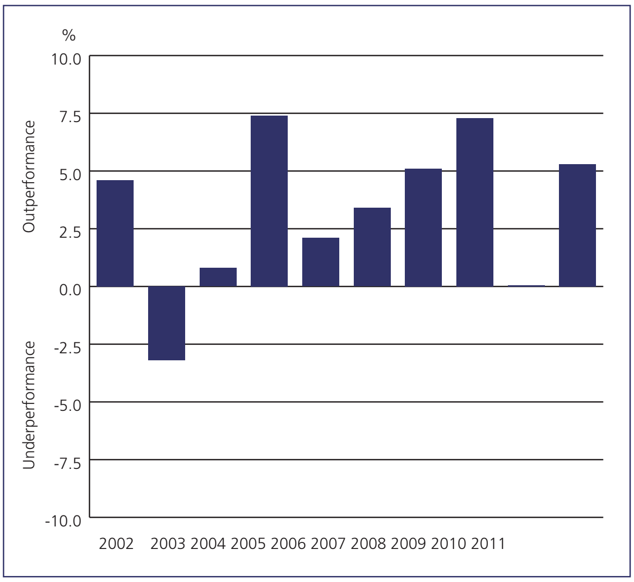
[2] Net assets and net asset value restated to include investments at bid prices.

[3] Revenue return includes 1.45p per ordinary share in respect of VAT recovery on past management fees.

Capital performance 10 years to 30 September 2011 (rebased to 100)



Annual net asset value performance relative to FTSE World Europe ex UK Index



Sources: Henderson Global Investors Limited, Funddata.

Portfolio Manager's Report

John Bennett

Economic and market background

The rather tiresome moniker of "risk on/risk off" has set the tone for financial markets during the year under review. The ongoing Greek tragicomedy provided investors with further reason to sell European equities ahead of the, by now, inevitable political fudge. This duly arrived via French proposals for a "voluntary" rollover of Greek debt; an exercise designed to shield the European banking system from eventual Greek default. It was always difficult to believe that the Greek populace would tolerate a deal that seems to impose an effective interest rate into double digits. Credulity was stretched further by the 21 July attempt to impose a "haircut" of a mere 21% on holders of Greek government bonds. This was shortly followed by the ill-fated "leveraged European Financial Stability Facility" proposal, an initiative which seems finally to have broken the back of markets' patience.

Investment strategy

Whilst all of this makes for an extremely challenging investing environment, we find it crucial to maintain our focus on where we can make a difference. Thus, stepping away from trading screens and switching off "noiseflow" offers respite. It is also crucial in helping us in our quest to identify value. Rarely has it been more important to take a step back and look at the worth of businesses, comparing that worth with the valuation as decided by the stock market. In so doing we can happily identify plenty of value in European equities. We have often said to our investors that you need bad macro to give you bargains. Well bad macro is here and the bargains are following.

This is precisely the approach we took in unearthing our biggest sector theme this year, pharmaceuticals. Here is a sector where the news flow has seemed relentlessly poor for many years and has seen its price earnings ratio fall over a decade and more from the 20's to below 10. It is an industry which has seen wholesale management change in pursuit of business model change. During the Spring of 2011 we made the sector our single biggest portfolio overweight in anticipation of a significant rerating over the coming years.

The pharmaceutical decision characterises the importance of standing back from the thankless task of second guessing Europe's hapless politicians in order to capitalise on the opportunities that the current turmoil will undoubtedly yield. Indeed, we've never tired of reminding ourselves that the entry price you pay is crucial to your returns: a truism often forgotten under the twin imposters of greed and fear. As Europe convulses, our opportunity set is increasingly likely to be priced somewhere between cheap and fire sale. Cheap is already here and fire sale may well come. In the meantime, we are able to invest in well financed, rock solid businesses sporting earnings multiples of 8-10 times and dividend yields of between 4% and 6%. Acknowledging that 8x may become 6x before we are through we are happy to commit. Indeed, we are sure that in future years we will not be alone in thinking that 2011-2012 proved an excellent entry point for the longer term minded. Thus, names such as Reed Elsevier, Roche, Sanofi, Total and Orkla fit the bill.

Investment activity

During the year we initiated positions in a number of health care companies including Beiersdorf, a producer of skincare products under the Nivea brand, Elekta, a Swedish business which specialises in the radiological treatment of cancer and medical equipment supplier Getinge. Both Elekta and Getinge stand to benefit from the long term drivers of demographics and internationalisation within their niches. Beiersdorf represents, in our opinion, an outstanding brand with an underperforming management team. It is heartening to see the recent announcement of a change in CEO. These purchases were financed in part from the disposal of chemical names Brenntag and Yara, airlines Lufthansa and Air France KLM as well as industrials Outotec and Assa Abloy.

In the first quarter of 2011 we took the decision to divest a number of stocks in the chemical sector reflecting our concern that the sector re-rating had left valuations stretched. After producing good returns we sold out of Infineon as it reached its price target and also disposed of Danske Bank due to concerns over the trading environment in its domestic market.

Portfolio Manager's Report

continued

As the year progressed we became concerned with stocks exposed to China. We have been worried for some time that emerging market equities were starting to look expensive and European plays such as German autos and luxury goods stocks appeared overheated. We cut our exposure to both sectors during the year. We are always concerned when the market is unquestioning of apparent "new paradigms" or "linear growth". China may well be the latest example of such flawed thinking: it certainly bears the hallmarks of an investment thesis leaving little room for error.

Early in the second quarter of 2011 we shifted our strategy to reflect what we considered to be an approaching inflection point. Our analysis had led us to conclude that corporate profit margins, especially among recent market favourites such as capital goods and chemicals, were nearing their peak. While we operate in an environment which often creates the temptation to believe in linear returns, as mean reversionists we have been concerned at the scope for profits to disappoint. Such disappointment has now begun to materialise. Against this backdrop we saw little reason to alter the sectoral shape of the portfolio. Thus, the Company has benefited from being long health care together with well financed large caps at the expense of cyclicals and financials. New holdings established during the year included Irish food processor Kerry Group and Rexel, a French electrical engineering group.

While we are confident that at current levels European equities are pricing in recession, it is nigh impossible to price in the risks facing the grand EU project. Thus we continue with our chosen themes: favouring cash rich businesses while disfavouring leverage, financials and the cyclical end of the market.

Essentially, we believe we have entered the end game in Europe's sovereign crisis. Crucial to that view is the fact that markets have started to take control. That is a necessary pre-condition; a rout is so often the requirement to remind politicians that they are not, in fact, in control. Italian and Spanish sovereign bond yields hitting 6%, en route to 7% and beyond, was, to us, that point. Thus, while we believe that European equities may well have further short-term downside, the fact that markets are in the mood to riot can only mean a solution to the EU situation is crawling closer to hand. With politicians scared, investors chasing the "safety" of paltry fixed income yields and European equities slumping to compelling values it is hardly the juncture to be turning bearish. Blue chip bargains help remind us that bull markets are born in recessions: thankfully, and despite the worst efforts of central bankers, those conditions are falling nicely into place.

John Bennett
Henderson Global Investors Limited

Investment Portfolio

as at 30 September 2011

Company	Sector	Country of listing	Valuation £'000	Percentage of listed investments
Roche	*Pharmaceuticals & biotechnology*	Switzerland	7,055	7.2
Novartis	*Pharmaceuticals & biotechnology*	Switzerland	6,544	6.6
Nestlé	*Food producers*	Switzerland	5,210	5.3
SAP	*Software & computer services*	Germany	4,396	4.4
Sanofi-Aventis	*Pharmaceuticals & biotechnology*	France	3,494	3.5
Reed Elsevier	*Media*	Netherlands	3,328	3.4
Total	*Oil & gas producers*	France	3,200	3.2
Getinge	*Health care equipment & services*	Sweden	3,034	3.1
Elekta	*Health care equipment & services*	Sweden	2,955	3.0
Novo Nordisk	*Pharmaceuticals & biotechnology*	Denmark	2,449	2.5
10 largest			**41,665**	**42.2**
Henkel	*Household goods*	Germany	2,377	2.4
Rexel	*Electronic & electrical equipment*	France	2,359	2.4
Siemens	*General industrials*	Germany	2,286	2.3
Bureau Veritas	*Support services*	France	2,016	2.0
Dassault Systemes	*Software & computer services*	France	1,821	1.8
Zurich Financial	*Non-life insurance*	Switzerland	1,774	1.8
Adidas Salomon	*Personal goods*	Germany	1,736	1.8
Royal Dutch Shell	*Oil & gas producers*	Netherlands	1,730	1.7
Legrand Promesses	*Electronic & electrical equipment*	France	1,727	1.7
Beiersdorf	*Personal goods*	Germany	1,577	1.6
20 largest			**61,068**	**61.7**
Air Liquide	*Chemicals*	France	1,575	1.6
Atlas Copco	*Industrial engineering*	Sweden	1,543	1.6
Sampo	*Non-life insurance*	Finland	1,493	1.5
Deutsche Telekom	*Mobile telecommunications*	Germany	1,471	1.5
Kone	*Industrial engineering*	Finland	1,460	1.5
Christian Dior	*Personal goods*	France	1,431	1.4
Kerry	*Food producers*	Ireland	1,430	1.4
Fugro	*Oil equipment & services*	Netherlands	1,296	1.3
UBS	*Banks*	Switzerland	1,239	1.3
SGS Surveillance	*Support Services*	Switzerland	1,224	1.2
30 largest			**75,230**	**76.0**
Vivendi	*Media*	France	1,160	1.2
Allianz	*Non-life insurance*	Germany	1,153	1.2
Anheuser-Busch	*Beverages*	Belgium	1,108	1.1
Unilever	*Food producers*	Netherlands	1,106	1.1
Luxottica	*Personal goods*	Italy	1,079	1.1
Banco Santander	*Banks*	Spain	1,065	1.1
ENI	*Oil & gas producers*	Italy	1,059	1.1
Fresenius	*Health care equipment & services*	Germany	1,052	1.1
BASF	*Chemicals*	Germany	1,033	1.0
E.ON	*Gas water & multiutilities*	Germany	1,027	1.0
40 largest			**86,072**	**87.0**
Vinci	*Construction & materials*	France	1,005	1.0
Amadeus IT	*Support services*	Spain	999	1.0
ING	*Life insurance*	Netherlands	948	0.9
AXA	*Non-life insurance*	France	864	0.9
Repsol	*Oil & gas producers*	Spain	822	0.8
Deutsche Bank	*Banks*	Germany	783	0.8
Bayer	*Chemicals*	Germany	780	0.8
Ericsson	*Technology hardware & equipment*	Sweden	754	0.8
BMW	*Automobiles & parts*	Germany	732	0.7
BNP Paribas	*Banks*	France	700	0.7
Schneider	*Electronic & electrical equipment*	France	688	0.7
Essilor	*Health care equipment & services*	France	616	0.6
VW	*Automobiles & parts*	Germany	555	0.5
Koninklijke	*Chemicals*	Netherlands	515	0.5
BBV Argentaria	*Banks*	Spain	500	0.5
Syngenta	*Chemicals*	Switzerland	493	0.5
Intesa	*Banks*	Italy	450	0.5
SKF	*Industrial engineering*	Sweden	395	0.4
ST Microelectronics	*Technology hardware & equipment*	Netherlands	360	0.4
Total listed equity investments at fair value			**99,031**	**100.0**

All securities are equity investments.

Portfolio Analysis

Country analysis

	Valuation at 30 September 2010 £'000	%	Net transactions £'000	Appreciation/ (depreciation) £'000	**Valuation at 30 September 2011 £'000**	**%**
Belgium	4,306	3.0	(2,575)	(623)	**1,108**	**1.0**
France	36,640	25.3	(9,425)	(4,559)	**22,656**	**21.8**
Germany	31,103	21.4	(10,654)	508	**20,957**	**20.2**
Ireland	–	–	1,636	(206)	**1,430**	**1.4**
Italy	5,346	3.7	(2,017)	(741)	**2,588**	**2.5**
Luxembourg	1,066	0.7	(1,163)	97	**–**	**–**
Netherlands	14,161	9.8	(1,946)	(2,931)	**9,284**	**8.9**
Portugal	1,493	1.0	(1,587)	94	**–**	**–**
Scandinavia	15,738	10.9	(1,311)	(343)	**14,084**	**13.6**
Spain	14,273	9.8	(9,089)	(1,798)	**3,386**	**3.3**
Switzerland	28,657	19.8	(5,103)	(16)	**23,538**	**22.6**
Total investments	152,783	105.4	(43,234)	(10,518)	**99,031**	**95.3**
Net current (liabilities)/assets	(7,838)	(5.4)	12,720	–	**4,882**	**4.7**
Net assets	144,945	100.0	(30,514)	(10,518)	**103,913**	**100.0**
Attributable to equity shareholders' funds	144,945	100.0	(28,020)[1]	(13,012)[2]	**103,913**	**100.0**

[1] Represents the cost of 4,524,820 ordinary shares repurchased during the year.

[2] Comprises the total return together with the cost of dividends paid during the year.

Sector analysis

	Euros £'000	Swiss francs £'000	Swedish krona £'000	Norwegian kroner £'000	Danish kroner £'000	Sterling £'000	Net assets at 30 September 2011 £'000	%
Oil & gas	8,106	–	–	–	–	–	8,106	7.8
Basic materials	3,903	493	–	–	–	–	4,396	4.2
Industrials	12,540	1,224	1,938	–	–	–	15,702	15.1
Consumer goods	13,131	5,210	–	–	–	–	18,341	17.6
Health care	5,163	13,599	5,988	–	2,449	–	27,199	26.2
Consumer services	4,489	–	–	–	–	–	4,489	4.3
Telecommunications	1,471	–	–	–	–	–	1,471	1.4
Utilities	1,027	–	–	–	–	–	1,027	1.0
Financials	7,957	3,013	–	–	–	–	10,970	10.6
Technology	6,576	–	754	–	–	–	7,330	7.1
Total investments	64,363	23,539	8,680	–	2,449	–	99,031	95.3
Net current assets/ (liabilities)	4,472	1,004	–	14	–	(608)	4,882	4.7
Net assets	**68,835**	**24,543**	**8,680**	**14**	**2,449**	**(608)**	**103,913**	**100.0**

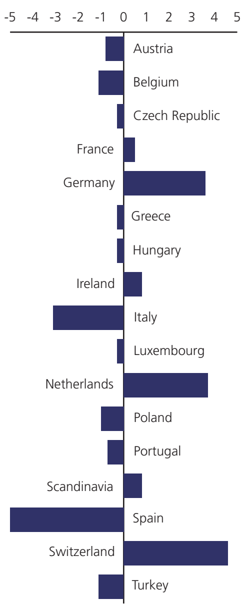
Portfolio Weightings

Country assets as at 30 September 2011

	Oil & gas %	Basic materials %	Industrials %	Consumer goods %	Health care %	Consumer services %	Telecoms %	Utilities %	Financials %	Technology %	Portfolio investments %	Benchmark Index %
Austria	–	–	–	–	–	–	–	–	–	–	–	0.8
Belgium	–	–	–	1.1	–	–	–	–	–	–	1.1	2.2
Czech Republic	–	–	–	–	–	–	–	–	–	–	–	0.3
France	3.2	1.6	7.9	1.4	4.2	1.2	–	–	1.6	1.8	22.9	22.4
Germany	–	1.8	2.3	7.0	1.1	–	1.5	1.0	1.9	4.4	21.0	17.4
Greece	–	–	–	–	–	–	–	–	–	–	–	0.3
Hungary	–	–	–	–	–	–	–	–	–	–	–	0.3
Ireland	–	–	–	1.4	–	–	–	–	–	–	1.4	0.6
Italy	1.1	–	–	1.1	–	–	–	–	0.5	–	2.7	5.8
Luxembourg	–	–	–	–	–	–	–	–	–	–	–	0.3
Netherlands	3.1	0.5	–	1.1	–	3.4	–	–	1.0	0.4	9.5	5.8
Poland	–	–	–	–	–	–	–	–	–	–	–	1.0
Portugal	–	–	–	–	–	–	–	–	–	–	–	0.7
Scandinavia	–	–	3.4	–	8.5	–	–	–	1.5	0.8	14.2	13.4
Spain	0.8	–	1.0	–	–	–	–	–	1.6	–	3.4	8.4
Switzerland	–	0.5	1.3	5.3	13.7	–	–	–	3.0	–	23.8	19.2
Turkey	–	–	–	–	–	–	–	–	–	–	–	1.1
Total	**8.2**	**4.4**	**15.9**	**18.4**	**27.5**	**4.6**	**1.5**	**1.0**	**11.1**	**7.4**	**100.0**	**–**
Benchmark index[1]	7.1	7.5	14.2	17.7	11.8	5.2	6.4	6.1	20.4	3.6	–	100.0

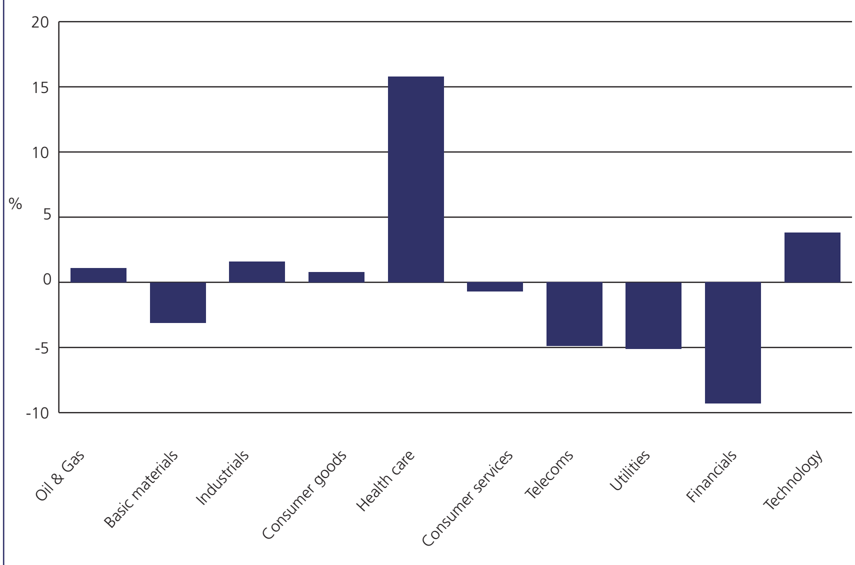
[1] FTSE World Europe ex UK Index in capital only sterling terms. Source: Henderson Global Investors Limited.

Country underweights/ overweights at 30 September 2011



Source: Henderson Global Investors Limited.

Sector underweights/overweights as at 30 September 2011



Source: Henderson Global Investors Limited.

Directors

Rodney Dennis
(Chairman of the Board and of the Nomination, Remuneration and Management Engagement Committees) runs an investment and pensions consulting business. He was formerly deputy chief executive of the Prince's Trust, prior to which he held a number of senior positions at Prudential Portfolio Managers Limited. He was appointed to the Board on 11 November 2003 and as Chairman on 14 September 2006.

Jean Claude Banon
Retired in June 2011 from Veolia Environnement SA where he was for many years CEO of some of the group's operations in the UK, then representative of the group within the EU institutions in Brussels. He is now developing corporate advisory services. He joined the Board on 18 March 1991.

Alexander Comba
(Chairman of the Audit Committee) is a chartered accountant. He has been group finance director of Vinci PLC, one of the UK's leading construction groups, since 1993. He joined the Board on 11 November 2003.

Michael Firth
Is a non-executive director of Network Rail Limited and Communisis plc. He was previously a non-executive director of Somerfield plc and First Technology PLC having previously been head of corporate banking at HSBC Bank plc. He joined the Board on 17 November 2006.

All Directors are independent of the Manager.

All Directors are members of the Audit, Nomination, Remuneration and Management Engagement Committees.

Management

Following the acquisition of Gartmore Group Limited by Henderson Group plc in April 2011, the management, administration and company secretarial services provided by Gartmore Investment Limited ("Gartmore") are now undertaken by Henderson Global Investors Limited ("Henderson") (which is authorised and regulated by the Financial Services Authority) and its subsidiaries.

The day-to-day management of the Company's portfolio is carried out by an award winning team led by John Bennett.

John Bennett is a director of European equities at Henderson. He joined Gartmore in 2010 after spending 17 years at GAM and has over 20 years' experience of managing Continental and Pan European equities. He qualified in 1986 as a member of the Chartered Institute of Bankers in Scotland.

Debbie Fish ACIS acts as Secretary on behalf of Henderson Secretarial Services Limited.

Report of the Directors

The Directors present the audited financial statements of the Company and their report for the year from 1 October 2010 to 30 September 2011.

Business Review

The following Business Review is designed to provide information primarily about the Company's business and results for the year ended 30 September 2011. The Business Review should be read in conjunction with the Chairman's Statement on pages 3 and 4 and the Portfolio Manager's Report on pages 6 and 7, which give a review of the investment activities for the year and an outlook for the future. The Directors' Remuneration Report is incorporated in this Business Review by reference.

a) Status

The Company (registered in England & Wales on 20 January 1947 with company registration number 427958) traded throughout the year under review and was not dormant. The Company is an investment company as defined in Section 833 of the Companies Act 2006 ("the Act") and operates as an investment trust in accordance with Section 1158 of the Corporation Tax Act 2010 ("Section 1158"), is subject to the UK Listing Authority's Listing Rules and is governed by its articles of association, amendments to which must be approved by shareholders by way of a special resolution. The Company is not a close company.

The Company is required to seek approval from HM Revenue & Customs ("HMRC") of its status as an investment trust under Section 1158 every year. HMRC approval of the Company's status as an investment trust has been received in respect of the year ended 30 September 2010, 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. Approval as an investment trust allows the Company to analyse its income between revenue, which is available for distribution by way of dividends, and capital, which it is prohibited from distributing other than by way of share buy-backs. The Company is liable to corporation tax on its net revenue profits but is exempt from corporation tax on capital gains if it has complied at all times with Section 1158.

b) Investment objective and policy

In the year under review, the Company's investment objective and policy was as follows:

Investment Objective

The Company seeks capital growth over the longer term from investment in Continental Europe.

Investment Policy

Asset allocation

The Manager will focus on stock selection, primarily investing in larger companies with strong balance sheets and above average growth prospects. Less emphasis will be given to adding value through country allocation, although the portfolio will maintain a broad geographical diversification. Up to 5% of gross assets may be invested in companies, which, although not listed in Continental Europe, derive the greater part of their earnings from its markets. Cash and derivative instruments (such as futures and options) may be used for efficient portfolio management and as part of investment strategy, subject to the prior consent of the Board.

Risk diversification

Portfolio risk is mitigated by investing in a diversified spread of investments, with holdings in any one company representing, on investment, no more than 10% by market value of the total assets of the Company. However, this limitation does not apply to gilts or investment company holdings. The Company will not invest more than 15% of its gross assets in other listed investment companies (including investment trusts). All of the Company's investments are listed on recognised exchanges and are normally realisable within a short period.

Gearing

The Company has the power to borrow money ("gearing") and does so when the Manager is confident that market conditions and opportunities exist to enhance investment returns. The Manager has discretion to borrow within limits set by the Board from time to time.

On 25 November 2011 shareholders approved the following investment objective and policy:

Investment Objective

The Company seeks to maximise total return from a focused portfolio of listed Continental European stocks.

Report of the Directors
continued

Investment Policy

Asset allocation

The portfolio is unconstrained by benchmark and contains between 50 to 60 holdings at any one time. While awareness of benchmark constituents and sector weightings inform portfolio construction, actual weightings of stocks held in the Company's portfolio are based upon the Manager's view of their total return prospects rather than their weighting in the benchmark, therefore the stock weighting in the portfolio can be materially higher or lower than the benchmark weighting. The aim is to seek out inflection points at both stock and sector level where growth can be purchased at a reasonable price. Less emphasis is given to geographical diversification. The portfolio is not constructed with a yield target. Derivative instruments (such as futures and options) may be used for investment purposes for up to 10% of net assets.

The portfolio has a bias to larger capitalised companies but may be invested in the equity of mid and smaller capitalised companies. The exposure to smaller capitalised stocks is limited to 10% of net asset value ("NAV"). Smaller capitalised companies are considered by the Manager to be those with a market capitalisation of less than €1 billion at the time of investment.

Risk diversification

The Company is invested in a diversified portfolio of investments containing between 50 to 60 stocks, with a maximum single stock weighting of 10% of NAV of the portfolio at the time of investment. Stocks weighted at 5% of the portfolio or more will not exceed 40% of NAV in aggregate and the minimum stock weight is 1% of NAV at the time of investment.

Gearing

The Company has the power to borrow and does so on a tactical basis when the Manager is confident that market conditions and opportunities exist to enhance investment returns by using gearing. The Manager has discretion to borrow within limits set by the Board from time to time but gearing will not exceed 20% of net assets at the time the borrowing is assumed.

The Company's benchmark with effect from 1 October 2011 is the FTSE World Europe ex UK Index (sterling total return). Prior to that the capital only Index was used as the Company's benchmark.

c) Financial review and dividend

- *Assets*

The Company's net assets at 30 September 2011 amounted to £103,913,000 compared with £144,945,000 at 30 September 2010.

- *Income*

The total loss for the year was £9,750,000 (2010: £1,584,000).

The Company made a net revenue surplus in the year, after expenses and taxation of £3,511,000 (2010: £3,906,000).

- *Dividend*

The Directors have declared an interim dividend, in lieu of final, of 17.75p per ordinary share which will be paid on 30 December 2011 to shareholders on the register on 16 December 2011.

d) Share capital and shareholders

- *Share capital*

As at 30 September 2011 there were 19,704,149 ordinary shares of 50p each in issue, 17,917,040 with full voting rights and 1,787,109 which were held in treasury. All ordinary shares rank equally for dividends and distributions and carry one vote each. There are no restrictions concerning the transfer of securities in the Company, no special rights with regard to control attached to securities, no agreements between holders of securities regarding their transfer known to the Company and no agreement which the Company is party to that affects its control following a takeover bid. To the extent that they exist, the revenue profits of the Company (including accumulated revenue reserves) are available for distribution by way of dividends to the holders of the ordinary shares. Upon a winding-up, after meeting the liabilities of the Company, the surplus assets would be distributed to shareholders pro rata to their holding of ordinary shares.

Subject to annual shareholder approval, the Company may purchase its own shares at a discount to NAV per share. At a general meeting held on 1 December 2010 shareholders granted authority for the Board to repurchase 2,963,400 ordinary shares. At the annual general meeting ("AGM") in January 2011 shareholders gave the Board authority to buy back 2,943,450 ordinary shares during the following 15 months. During the year to 30 September 2011 the Company repurchased for cancellation 4,524,820 ordinary shares (equal to 20.1% of the issued share capital as at 1 October 2010) out of the above mentioned authorities and that remaining from the authority granted at the 2010 AGM.

Report of the Directors

continued

Since the end of the year to the date of this report the Company has repurchased a further 555,995 shares (2.5%).

- *Holdings in the Company's shares*

Declarations of interests in the voting rights of the Company at 30 September 2011 are as follows:

Voting rights at 30 September 2011

	Percentage of voting rights
Investec Wealth & Investment Limited	11.0

- At 30 September 2011 the Company had 17,917,040 ordinary shares in issue with a total of 17,917,040 voting rights. There were 1,787,109 shares held in treasury at that date with no voting rights. At 5 December 2011 there were 17,361,045 ordinary shares in issue with a total of 17,361,045 voting rights. 1,343,104 shares were held in treasury at that date.
- The percentage is calculated by applying the latest holding disclosure to the Company to the aggregate voting rights in respect of the issued ordinary share capital.

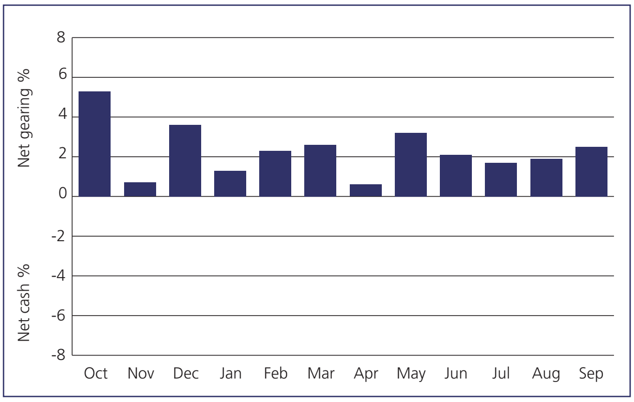
In the period from 1 October 2011 to 5 December 2011 no disclosures of voting rights have been received by the Company.

The Board is aware that, as at 30 September 2011, 7.5% of the issued ordinary shares were held on behalf of participants in Halifax Share Dealing products. The participants in these schemes are given the opportunity to instruct the relevant nominee company to exercise the voting rights appertaining to their shares in respect of all general meetings of the Company. The nominee company has stated that it will exercise the voting rights of any shares held through the scheme that have not been exercised by the individual participants. They will do so by voting for or against all resolutions to be put at all general meetings of the Company (or by withholding votes on such resolutions) pro rata to the aggregate voting instructions for each resolution received from those participants who have chosen to exercise their voting rights.

e) Borrowing

The Manager is authorised to gear the portfolio through the use of flexible borrowing facilities, details of which are provided in note 14 to the accounts. In addition, the Board has authorised the Manager to use contracts for difference for gearing purposes, although these were not used during the year. The Board monitors the level of gearing regularly and has a policy that gearing shall not exceed 20% of the value of net assets. Borrowing levels are also restricted by financial covenants. During the year, net gearing ranged between 0.3% and 5.1% of net assets. At 30 September 2011 drawings on the overdraft facility provided by the Company's custodian, HSBC Bank plc, represented 2.5% of net assets (2010: 6.3%).

Net gearing/net cash levels as a percentage of net assets over the year to 30 September 2011



f) Going concern

Having considered the Company's investment objective, the nature and liquidity of the Company's investment portfolio and income and expenditure projections, the Directors believe it is appropriate for the Company to continue to prepare its accounts on a going concern basis. The assets of the Company consist almost entirely of securities that are readily realisable and the value of the Company's assets is greater than its liabilities. Accordingly, the Company has adequate financial resources to continue in operational existence for the foreseeable future.

g) Performance measurement and key performance indicators

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

- The movement of the NAV per ordinary share compared with the movement of the FTSE World Europe ex UK Index in sterling terms ("the Benchmark Index"). This is reflected in the performance-related fee which may be payable to the Manager based on the degree to which NAV performance exceeds that of the Benchmark Index. In the year under review the capital return of the Benchmark Index was used for calculating the performance fee; with effect from 1 October 2011 the Company's performance is measured against the Benchmark Index on a total return basis.

Information on the Company's performance in the year under review is included in the Chairman's Statement on page 3 and in the tables on page 1.

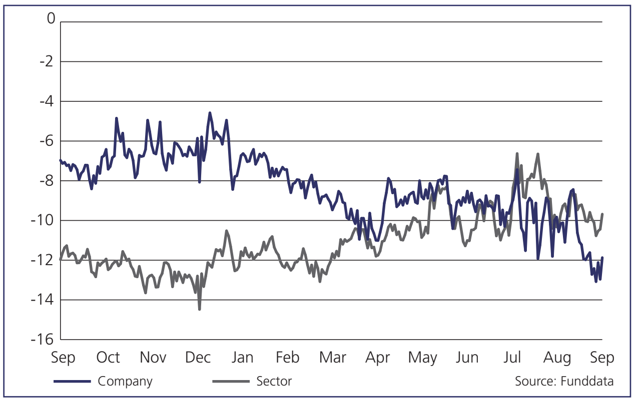
- The Board also monitors the performance of the Company's ordinary shares and, in particular, the level of discount at which the ordinary shares trade relative to the NAV. Over the year to 30 September 2011, the middle-

Report of the Directors

continued

market price of the Company's ordinary shares decreased by 15.6% to 493.88p. The Company has a policy to buy back its ordinary shares with the aim of maintaining a rating better than the European sector peer group average over the longer term, in normal market conditions, as well as eliminating stock overhang and providing liquidity to the market. During the year to 30 September 2011, the ordinary shares traded at an average discount of 9.1% compared to a European sector average of 11.1%.

Share price discount to NAV (compared with the AIC Europe sector)



- Additionally, the Board regularly reviews the costs of running the Company. The total expense ratio ("TER") is a measure of the Company's total expenses (excluding transaction costs, performance fees and finance costs), including those charged to capital, expressed as a percentage of average shareholders' funds over the year. For the year to 30 September 2011, the Company's TER was 0.8%, compared with 1.1% for the previous year. The decrease in the TER in the year under review was mainly as a result of the management fee being waived for three months.

Information on how the Company has performed over the longer term is included on page 5.

h) Management arrangements

Following the acquisition of Gartmore Group Limited by Henderson Group plc in April 2011, with effect from 15 July 2011 the investment management services previously provided by Gartmore Investment Limited ("Gartmore"), as set out in an investment management agreement dated 1 November 2002 (as subsequently amended) were novated to Henderson Global Investors Limited ("Henderson") (which is authorised and regulated by the Financial Services Authority) on 15 July 2011. That agreement was terminable upon three months' notice by either party. The Company entered into a new investment management agreement with Henderson, effective from 25 November 2011, which is terminable on six months' notice by either party.

In the year under review, Henderson received a management fee of 0.75% per annum on the value of the Company's total assets, less current liabilities other than borrowings for the purpose of investment, calculated monthly in arrears. In determining the total assets on which the management fee was calculated, the value of any securities held by the Company in collective investment schemes managed by the Manager were excluded.

An additional management fee, based on performance, of up to 0.5% per annum would have been payable if the Manager met certain targets for the year.

The performance fee would have been charged when the NAV at the end of the Company's financial year was higher than it was at the start and the NAV percentage increase over the year was greater than the percentage increase in the Benchmark Index.

The performance levels were as follows:

- 0.15% fee for the first 1.5% of outperformance;
- 0.1% fee for outperformance between 1.5% and 2.0%;
- 0.25% fee for outperformance between 2.0% and 2.25%;
- The maximum performance fee was capped at 0.5% per annum.

With effect from 1 October 2011 the management fee is calculated on the value of the Company's net assets. The performance fee arrangements have also been amended so that an additional fee of up to 1.0% per annum is payable if the Manager meets revised targets for the year.

The revised performance fee will be charged when the NAV percentage increase over the year is greater than the percentage increase in the Benchmark Index in sterling and total return terms, plus a hurdle of 1%. The Manager will be entitled to 15% of the NAV outperformance of the Benchmark Index above the hurdle (excluding the effect of share buy-backs), subject to the maximum amount payable in any one year in respect of the management fee and the performance fee being 1.75% of net assets at the year end.

Underperformance will be carried forward and must be made up before any further performance fee can be paid. Any excess performance will be carried forward and can be set against

Report of the Directors

continued

underperformance but not used to earn or enhance a performance fee payment.

Each annual performance related fee is calculated based on the relevant figures for the financial year as audited and published in the relevant annual report. No performance related fee was payable in respect of the year ended 30 September 2011 (2010: £nil).

Henderson and its subsidiaries provide accounting, company secretarial and general administrative services under the terms of the investment management agreement. There is no separate charge for the provision of these services.

Details of the individuals at Henderson responsible for managing the day-to-day operations of the Company are given on page 11.

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

With effect from 26 January 2011, custody services are provided by HSBC Bank plc. Prior to that the custodian was The Bank of New York Mellon.

i) Principal risks and uncertainties

The Board's policy on risk management has not changed from last year. The Directors have put in place processes to identify and manage significant risks to the Company, including internal controls to minimise operational risks. The Board, in conjunction with the Audit Committee, regularly review the system of internal controls. These include controls to safeguard the Company's assets and shareholders' investments. A summary of the Company's approach to internal controls and risk can be found in the Corporate Governance Statement on pages 20 and 21.

The Board has identified its key risks as follows:

- *Market risk*

The Company's performance is dependent on the performance of the companies and markets in which it invests and will also be affected by the strength of currencies in the regions in which it invests relative to sterling. Investment risk is spread by holding a diversified portfolio of companies with strong balance sheets and above average growth prospects. A significant proportion of the holdings in the Company's portfolio may not be represented in the Benchmark Index. An analysis of the Company's portfolio and geographical weightings compared to the Benchmark is included on pages 9 and 10.

- *Gearing*

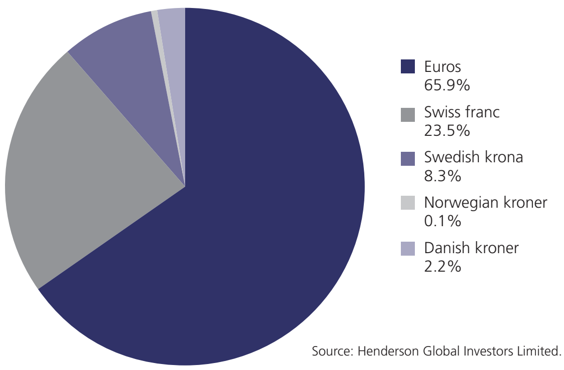
The Manager has authority to use gearing up to a maximum of 20% of the Company's net assets. In the event of a significant or prolonged fall in equity markets gearing would exacerbate the effect of the falling market on the Company's NAV and, consequently, it share price.

- *Other financial risks*

The Company minimises the risk of a counterparty failing to deliver securities or cash by dealing through organisations that have undergone rigorous due diligence by the Manager.

The Company holds its liquid funds, which are mostly denominated in euro, almost entirely in interest bearing bank accounts in the UK or on short-term deposit. This, together with a portfolio which comprises mainly investments in large and medium-sized companies listed on major equity markets, mitigates the Company's exposure to liquidity risk.

The majority of the Company's assets and liabilities are denominated in currencies other than sterling. No hedging of the currency exposure is currently undertaken. Consequently, exchange rate fluctuations have the potential to reduce or enhance returns for sterling based investors. Exposure to currencies as at 30 September 2011 is shown below.



Source: Henderson Global Investors Limited.

The Board receives regular reports on the Company's compliance with Section 1158, the UKLA Listing Rules and other regulations.

Other principal risks associated with the Company's financial instruments and policies for managing these risks are given in note 15 to the accounts.

j) Payment of suppliers

The Company's principal supplier is its Manager, the payment terms for which are set out above and in note 5 to the accounts. In relation to other suppliers, it is the payment policy of the Company to obtain the best possible terms for all

Report of the Directors

continued

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. All creditors are settled on the due date for payment.

Annual General Meeting

The AGM will be held on Friday 27 January 2012 at 2.30 p.m. at the Company's registered office. Separate resolutions will be proposed for each substantive issue. The notice and details of the resolutions to be put at the AGM are contained in the separate letter being sent to shareholders with this report.

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

Corporate Governance Statement

a) Applicable corporate governance codes

The Board is accountable to shareholders for the governance of the Company's affairs. The Company is committed to maintaining high standards of corporate governance and the Board has considered the principles and recommendations of the Association of Investment Companies ("AIC") Code of Corporate Governance ("the AIC Code") by reference to the AIC Corporate Governance Guide for Investment Companies ("the AIC Guide") issued in October 2010. The AIC Code addresses all the principles set out in the UK Corporate Governance Code ("the UK Code") as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company.

The Financial Reporting Council ("the FRC") confirmed on 30 September 2010 that it remained the view of the FRC that by following the AIC Guide boards of investment companies should fully meet their obligations in relation to the UK Code and paragraph 9.8.6 of the Listing Rules.

Copies of the AIC Code, the AIC Guide and the UK Code can be found on the respective organisations' websites: www.theaic.co.uk and www.frc.org.uk.

b) Statement of compliance

The Board believes that the Company has complied with the recommendations of the AIC Code that are applicable to smaller companies (those below the FTSE 350) during the year under review and up to the date of this report and therefore the provisions of the UK Code that are relevant to the Company, except as set out below or elsewhere in the Corporate Governance Statement.

The UK Code includes provisions relating to:

- the role of the chief executive;
- executive directors' remuneration; and
- the need for an internal audit function.

For the reasons set out in the AIC Guide, and as explained in the UK Code, the Board considers these provisions are not relevant to the Company as an externally managed investment company. The Company has therefore not reported further in respect of these provisions.

c) Directors

- *Board composition*

The Board consists of four non-executive Directors and the biographies of those holding office at the date of this report, which are set out on page 11, demonstrate the breadth of investment, commercial and professional experience relevant to their positions as Directors.

Each Director has a signed letter of appointment to formalise the terms of his engagement, copies of which are available for inspection at the Company's registered office during normal business hours and at the Company's AGM.

- *Directors' appointment and retirement*

The appointment of new Directors is considered by the Nomination Committee, which makes recommendations to the Board. The Board may appoint directors to the Board and any Director so appointed must stand for election by the shareholders at the AGM following appointment, in accordance with the articles of association.

All Directors are appointed for an initial term of three years. The articles of association require each Director to retire and submit themselves for re-election at least every three years. In line with these requirements Alexander Comba will stand for re-election at the AGM.

Report of the Directors
continued

In accordance with the requirements of the UK Code, Jean Claude Banon, who has served as a Director for more than nine years, will also stand for re-election at the AGM.

The Board confirms that, having conducted a formal performance evaluation, as explained on page 20, each of the Directors seeking re-election continue to demonstrate their commitment to the Company and to perform their roles effectively and recommends that you vote in favour of each of the relevant resolutions being put to the AGM.

- *Directors' independence*

All Directors have a wide range of other interests and are not dependent on the Company itself. At the Nomination Committee meeting in September 2011, the Directors reviewed their independence and confirmed that all Directors remain wholly independent of the Manager. Jean Claude Banon has served on the Board for more than nine years. In line with the AIC Code, the Board believes that length of service does not diminish the contribution from a Director as experience and knowledge of the Company is a positive factor and should not impact a Director's independence. The Board has determined that all Directors are independent in character and judgement and that their individual skills, broad business experience and high degree of knowledge and understanding of the Company are of great benefit to shareholders.

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 contract of service with the Company and there are no agreements between the Company and its Directors concerning compensation for loss of office.

- *Directors' remuneration and shareholdings*

The Directors' Remuneration Report on page 24 provides information on the remuneration of the Directors.

The beneficial interests of the Directors in the ordinary shares of the Company are shown in the table that follows.

Directors' interests

	30 September 2011	30 September 2010
Rodney Dennis	**–**	–
Jean Claude Banon	**–**	–
Alexander Comba	**5,000**	5,000
Michael Firth	**–**	–

There have been no changes in any of the Directors' interests in shares detailed above since the Company's year end. No Director held any interest, beneficial or otherwise, in the issued shares of the Company other than stated above.

- *Directors' conflicts of interest*

The Company's articles of association permit the Board to consider and, if it sees fit, to authorise situations where a Director has an interest that conflicts, or may possibly conflict, with the interests of the Company ("situational conflicts"). The Board has a formal system in place for Directors to declare situational conflicts to be considered for authorisation by those Directors who have no interest in the matter being considered. In deciding whether to authorise a situational conflict, the non-conflicted Directors must act honestly and in good faith with a view to the best interests of the Company and they may impose limits or conditions when giving the authorisation, or subsequently, if they think this is appropriate.

Any situational conflicts considered, and any authorisations given, are recorded in the relevant minutes. The prescribed procedures have been followed in deciding whether, and on what terms, to authorise situational conflicts and the Board believes that the systems it has in place for reporting and considering situational conflicts continues to operate effectively.

- *Directors' professional development*

When a new Director is appointed he or she is offered an induction seminar which is held by the Manager. Directors are also provided on a regular basis with key information on the Company's policies, regulatory and statutory requirements and internal controls. Changes affecting Directors' responsibilities are advised to the Board as they arise. Directors are also able to attend external training facilities at the expense of the Company and each Director's individual training requirements are considered by the Chairman as part of the annual performance appraisal.

- *Directors' insurance and indemnification*

Directors' and officers' liability insurance cover is in place which indemnifies the Directors against certain liabilities arising from the carrying out of their duties. Under the Company's articles of association and, subject to the provisions of UK legislation, a qualifying third party provision indemnity may be provided to Directors in respect of costs which they may incur relating to the defence of any proceedings brought against them arising out of their positions as Directors, in which they are acquitted or judgment is given in their favour by the Court. The

Report of the Directors

continued

Company has granted indemnity to Directors to the extent permitted by law in respect of liabilities that may attach to them in their capacity as Directors of the Company.

d) The Board

- *Responsibilities of the Board and its Committees*

The Board meets formally at least five times a year, with additional Board or committee meetings arranged when required. The Directors have regular contact with the Portfolio Manager and Secretary between formal meetings. The Board has a formal schedule of matters specifically reserved for its decision, which are categorised under various headings including strategy, management and structure, financial reporting and other communications, Board membership and other appointments, contracts, internal control, corporate governance and miscellaneous. The Board is responsible for the approval of annual and half year reports, interim management statements and other public documents.

At each meeting the Board reviews the Company's investment performance and considers financial analyses and other reports of an operational nature. The Board monitors compliance with the Company's objective and is responsible for setting asset allocation, investment and gearing limits within which the Manager has discretion to act and regularly reviews investment strategy. It has adopted a procedure for Directors to take independent professional advice in the furtherance of their duties at the expense of the Company. In order to enable them to discharge their responsibilities, all Directors have full and timely access to relevant information.

- *Committees of the Board*

The Board has four Committees: the Audit Committee, the Management Engagement Committee, the Nomination Committee and the Remuneration Committee. The terms of reference for these Committees are available on the website **www.hendersoneuropeanfocus.com** or via the Secretary.

Audit Committee

The Audit Committee comprises all of the Directors and is chaired by Alexander Comba. The Board is satisfied that at least one of the Committee's members has recent and relevant financial experience.

The Audit Committee meets at least twice a year and is responsible for the review of the half year report, the annual accounts, the nature and scope of the external audit and the findings therefrom, the terms of appointment of the auditors together with their remuneration, performance, independence and objectivity, as well as any non-audit services provided by the auditors. It meets with representatives of the Manager and receives reports on the quality and effectiveness of the accounting records and management information maintained on behalf of the Company. Representatives of the Manager's compliance and risk department regularly attend meetings to report on the systems of internal controls in place.

The provision of non-audit services by the Company's auditors is considered and approved by the Audit Committee on a case by case basis having consideration to the cost effectiveness of the services and the potential impact on the independence and objectivity of the auditors.

The Audit Committee remains satisfied with the effectiveness of the audit provided by Grant Thornton UK LLP. The Audit Committee is satisfied that the auditors are independent of the Company.

The appointment of the auditors is not regularly put out to tender but performance is regularly reviewed by the Audit Committee. On the basis of the auditors' performance the Audit Committee recommended their continuing appointment to the Board with no tender necessary.

The auditors have indicated their willingness to continue in office. Accordingly, resolutions to confirm the appointment of Grant Thornton UK LLP as auditors to the Company, and to authorise the Directors to determine their remuneration, will be proposed at the AGM.

The Audit Committee has reviewed and is satisfied with the "whistle blowing" policy that the Manager has put in place for its staff to raise concerns about possible improprieties, including in relation to the Company, in confidence. The policy includes the necessary arrangements for independent investigation and follow-up action.

Nomination Committee

All Directors are members of the Nomination Committee, which is chaired by the Chairman of the Board (who would not chair the Committee when the Chairman's successor was being considered). The Committee is responsible for reviewing Board succession planning and tenure policy, the performance of the Board as a whole and the Board Committees and the appointment of new Directors through an established formal procedure.

Report of the Directors
continued

When considering succession planning, the Committee bears in mind the balance of skills, knowledge, experience and diversity existing on the Board and will recommend when the recruitment of additional non-executive Directors is required. Once a decision is made to recruit additional Directors to the Board, a formal job description is drawn up. The Committee may use external agencies as and when the requirement to recruit an additional Board member becomes necessary.

The Committee also reviews and recommends to the Board the Directors seeking re-election. Recommendation is not automatic and will follow a process of evaluation of each Director's performance and consideration of the Director's independence. The Committee also takes into account the mix of skills and experience of the current Board members. In accordance with the UK Code any Director serving for longer than six years would be subject to particularly rigorous assessment of his contribution.

The Committee met in November 2011 to carry out its annual review of the Board, its composition and size and its Committees. The results of the performance evaluation are contained in (e) below.

Management Engagement Committee
All Directors are members of the Management Engagement Committee, which is chaired by the Chairman of the Board. The Committee is responsible for reviewing the management contract on a regular basis, ensuring that the terms are fair and reasonable and that its continuance, given the Company's performance over both short and longer terms, is in the best interests of the Company and its shareholders and also for reviewing the performance and cost effectiveness of the Company's other service providers.

The Committee met in September 2011 to carry out its annual review of the Manager, the results of which are contained in (h) below.

Remuneration Committee
All Directors are members of the Remuneration Committee, which is chaired by the Chairman of the Board. The Committee is responsible for monitoring the remuneration of the Directors. The level of Directors' fees is reviewed by reference to the work involved, the level of responsibility and the fees paid by comparable investment companies. Further information is included in the Directors' Remuneration Report on page 24.

- *Board attendance*

The table below sets out the number of Board and Committee meetings held during the year under review and the number of meetings attended by each Director. All Directors attended the AGM in January 2011.

Directors' attendance at meetings

	Board	AC	MEC	NC	RC
Number of meetings	**6**	**2**	**1**	**1**	**1**
Rodney Dennis	6	2	1	1	1
Jean Claude Banon	6	2	1	1	1
Alexander Comba	6	2	1	1	1
Michael Firth	6	2	1	1	1

AC: Audit Committee
MEC: Management Engagement Committee
NC: Nomination Committee
RC: Remuneration Committee

Committees of the Board also met during the year to undertake business such as the approval of the Company's results and dividend.

e) Performance evaluation
The performance of the Company is considered in detail at each Board meeting. In November 2011 the Board conducted a review of its own performance, together with that of its Committees, the Chairman and each individual Director through questionnaires and discussion and concluded that each were satisfactory and the Board has a good balance of skills and experience. In particular, it is considered that each of the Directors makes a significant contribution to the affairs of the Company and that Directors seeking re-election at the Company's AGM merit re-election by shareholders. The use of external parties to undertake the performance evaluation has been used on occasion historically and will be considered from time to time in the future.

f) Internal controls
The Board has established an ongoing process for identifying, evaluating and managing any major risks faced by the Company. The process accords with advice issued by the FRC and is subject to regular review by the Board.

The Board has overall responsibility for the Company's system of internal controls and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate risks of failure to achieve the Company's business objectives and can only provide reasonable and not absolute assurance

Report of the Directors
continued

against material misstatement or loss. The Board has reviewed the effectiveness of the Company's system of internal controls for the year ended 30 September 2011. During the course of its review the Board has not identified or been advised of any failings or weaknesses that have been determined as significant. All business risks faced by the Company are recorded in a risk map which is reviewed regularly.

The Manager has established an internal control framework to provide reasonable, but not absolute, assurance on the effectiveness of the internal controls operated on behalf of its clients. The effectiveness of the internal controls is assessed by the Manager's compliance and risk department on a continuing basis. The Board receives a formal report on a quarterly basis which details the steps taken to monitor the areas of risk, including those that are not directly the responsibility of the Manager, and which reports the details of any known internal control failures. The Board receives a report on the Manager's internal controls each year which includes a report from the Manager's auditors on the control policies and procedures in operation. During the year under review, the Board reviewed reports from both Gartmore and Henderson on their systems of internal control and risk management.

As all of the Company's management functions are delegated to third parties, and the Board monitors the controls in place through the Manager's internal audit department, the Board feels that there is currently no need for the Company to have its own internal audit function.

g) Accountability and relationship with the Manager

The Statement of Directors' Responsibilities in respect of the financial statements is set out on page 23, the Independent Auditor's Report on page 45 and the statement of going concern on page 14.

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 and administration requirements and registration services. Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of the services offered, including the control systems in operation in so far as they relate to the affairs of the Company.

The Board receives and considers regular reports from the Manager and ad hoc reports and information are supplied to the Board as required. In addition, the Chairman is able to attend meetings of all the chairmen of the investment trust companies managed by the Manager which provide a forum to discuss industry matters which would then be reported to the Board.

The Manager takes decisions as to the purchase and sale of individual investments. The Manager also ensures that all Directors receive, in a timely manner, all relevant management, regulatory and financial information. Representatives of the Manager attend each Board meeting enabling the Directors to probe further on matters of concern. The Directors have access to the advice and services of the Secretary through its appointed representative who is responsible to the Board for ensuring that Board and Committee procedures are followed and that applicable rules and regulations are complied with. The proceedings at all Board and Committee meetings are fully recorded through a process that allows any Director's concerns to be recorded in the minutes.

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

h) Continued appointment of the Manager

The Board considers the arrangements for the provision of investment management and other services to the Company on an ongoing basis. The principal contents of the agreement with the Manager are contained on pages 15 and 16.

Through the Management Engagement Committee, an annual review of the Company's investment performance over both the short and longer terms, together with the quality of other services provided by Henderson, including company secretarial, accounting and marketing, and the terms of the investment management agreement and company secretarial and administration agreement is undertaken.

The Board remains satisfied with investment performance and, in particular the experience, skills and commitment of the individual Portfolio Manager, which has not changed since the change in management arrangements. It is therefore the Directors' opinion that the continuing appointment of the

Report of the Directors
continued

Manager on the existing terms is in the interests of the Company and its shareholders as a whole.

i) Relations with shareholders

Shareholder relations are given high priority by the Board. The prime medium by which the Company communicates with its shareholders is through the half year report and annual report and financial statements which aim to provide shareholders with a clear understanding of the Company's activities and their results. This information is supplemented by the daily calculation and publication of the NAV per share to a regulatory information service and a monthly fact sheet which is available on the website **www.hendersoneuropeanfocus.com**

The Board considers that shareholders should be encouraged to attend and participate in the AGM. Shareholders have the opportunity to address questions to the Chairman of the Board, the Chairman of the Audit Committee and all other Directors at the meeting. John Bennett, the Portfolio Manager, will make a presentation to shareholders. A summary of the proxy votes received on the resolutions proposed is displayed at the meeting and each substantial issue is dealt with in a separate resolution. It is the intention of the Board that the annual report and financial statements and notice of AGM be issued to shareholders so as to provide at least 20 working days' notice of the meeting. These documents are also included on the website. Shareholders wishing to lodge questions in advance of the meeting, or raise issues or concerns at any time, are invited to do so by writing to the Secretary at the registered office address given on page 48.

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.

j) Corporate Responsibility (SEE statement)

- *Responsible investment*

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

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

- *Voting policy and the UK Stewardship Code*

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

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

Practical difficulties may prevent the Manager voting in some markets. In particular, various factors, including restrictions on dealing and costs, may inhibit voting in some international markets and must be taken into account.

The Henderson responsible investment policy can be found on the Henderson website, **www.henderson.com**

- *Environmental matters*

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

By order of the Board

Debbie Fish ACIS
For and on behalf of
Henderson Secretarial Services Limited, Secretary
7 December 2011

Statement of Directors' Responsibilities

The Directors are responsible for preparing the annual report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Statement under DTR 4.1.12

Each of the Directors, who are listed on page 11, confirms that, to the best of their knowledge:

- the financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) on a going concern basis, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the annual report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces, and details on related party transactions.

Signed for and on behalf of the Board of Directors

Rodney Dennis
Chairman
7 December 2011

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

The maintenance and integrity of the website is the responsibility of Henderson; the work carried out by the 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.

Directors' Remuneration Report

Introduction

This report is submitted in accordance with Sections 420-422 of the Companies Act 2006 ("the Act"). The report also meets the relevant Listing Rules of the Financial Services Authority and describes how the Board has applied the principles relating to Directors' remuneration. As required by Section 439 of the Act, an ordinary 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.

Remuneration policy

All Directors are non-executive and the Company has no employees. The whole Board fulfills the function of the Remuneration Committee. No advice or services were provided by any external person in respect of the consideration of Directors' remuneration.

Directors are remunerated in the form of fees, payable quarterly in arrears, to the Director personally. In accordance with the Company's articles of association the aggregate remuneration of the Directors may not exceed £150,000 per annum. Subject to this overall limit, the Board's policy is that remuneration should be comparable to that of other investment trusts of a similar size and with a similar capital structure and investment objective and should be of a sufficient level to attract and retain directors of a suitable calibre.

No Director is eligible to receive bonuses, pension benefits, share options or other benefits and no long-term incentive schemes are in place.

No Director has a service contract with the Company. Directors' appointments may be terminated at any time by and at the discretion of either party upon one month's written notice with no compensation payable.

Directors' fees

During the year to 30 September 2011 Directors' annual fees were £25,000 for the Chairman of the Board, £21,000 for the Chairman of the Audit Committee and £18,000 for each of the other Directors. With effect from 1 October 2011 these fees were increased to £30,000 for the Chairman, £24,000 for the Chairman of the Audit Committee and £21,000 for the other Directors to bring them more into line with the fees paid by comparable investment trusts.

The fees paid to the Directors who served during the year ended 30 September 2011 were as follows:

(Audited)	**Year to 30 September 2011 £**	Year to 30 September 2010 £
Rodney Dennis[(1)]	**25,000**	25,000
Jean Claude Banon	**18,000**	18,000
Alexander Comba[(2)]	**21,000**	21,000
Michael Firth	**18,000**	18,000
Total	**82,000**	82,000

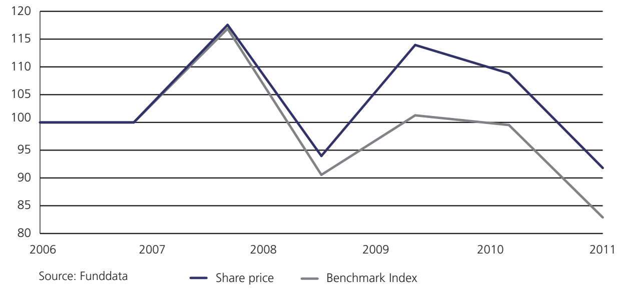
(1) Chairman and highest paid Director
(2) Chairman of the Audit Committee

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

Performance graph

Prior to 1 October 2011 the Company's performance was measured against the FTSE World Europe ex UK Index on a capital only basis in sterling terms ("the Benchmark Index"). The graph below compares the mid-market price of the Company's ordinary shares over the five year period to 30 September 2011 with the Benchmark Index over the same period.

Performance
to 30 September 2011



By order of the Board

Debbie Fish ACIS
For and on behalf of
Henderson Secretarial Services Limited, Secretary
7 December 2011

Income Statement

for the year ended 30 September 2011

Notes		Year ended 30 September 2011 Revenue return £'000	Year ended 30 September 2011 Capital return £'000	Year ended 30 September 2011 Total £'000	Year ended 30 September 2010 Revenue return £'000	Year ended 30 September 2010 Capital return £'000	Year ended 30 September 2010 Total £'000
2(a)	Losses on investments held at fair value through profit or loss	**–**	**(10,518)**	**(10,518)**	–	(5,139)	(5,139)
2(b)	Losses on derivative instruments	**–**	**(1,832)**	**(1,832)**	–	–	–
	Exchange gain on currency transactions	**–**	**10**	**10**	–	884	884
3	Income from investments	**4,549**	**–**	**4,549**	5,263	–	5,263
4	Other income	**8**	**–**	**8**	2	–	2
12	Fair value adjustment of subsidiary	**–**	**–**	**–**	–	(30)	(30)
	Gross revenue and capital gains/(losses)	**4,557**	**(12,340)**	**(7,783)**	5,265	(4,285)	980
5	Management fee	**(181)**	**(545)**	**(726)**	(301)	(904)	(1,205)
6	Other fees and expenses	**(334)**	**(317)**	**(651)**	(421)	(124)	(545)
	Net return on ordinary activities before finance charges and taxation	**4,042**	**(13,202)**	**(9,160)**	4,543	(5,313)	(770)
7	Finance charges	**(20)**	**(59)**	**(79)**	(40)	(118)	(158)
	Net return on ordinary activities before taxation	**4,022**	**(13,261)**	**(9,239)**	4,503	(5,431)	(928)
8	Taxation on net return on ordinary activities	**(511)**	**–**	**(511)**	(597)	(59)	(656)
	Net return on ordinary activities after taxation	**3,511**	**(13,261)**	**(9,750)**	3,906	(5,490)	(1,584)
9	**Return per ordinary share**	**18.29p**	**(69.09)p**	**(50.80)p**	15.69p	(22.06)p	(6.37)p

The total columns of this statement represent the Income Statement of the Company. The revenue return and capital return columns are supplementary to this and are prepared under guidance published by the Association of Investment Companies. All revenue and capital items in the above statement derive from continuing operations. No operations were acquired or discontinued during the year. The Company had no recognised gains or losses other than those disclosed in the Income Statement.

Reconciliation of Movements in Shareholders' Funds

for the year ended 30 September 2011

Notes	**Year ended 30 September 2011**	**Called up share capital £'000**	**Special distributable reserve £'000**	**Merger reserve £'000**	**Capital redemption reserve £'000**	**Capital reserve £'000**	**Revenue reserve £'000**	**Total £'000**
	At 30 September 2010	**12,352**	**53,001**	**61,344**	**6,171**	**1,596**	**10,481**	**144,945**
	Net return on ordinary activities after taxation	**–**	**–**	**–**	**–**	**(13,261)**	**3,511**	**(9,750)**
10	**Ordinary dividend paid**	**–**	**–**	**–**	**–**	**–**	**(3,262)**	**(3,262)**
16	**Buy-backs of ordinary shares and held in treasury**	**–**	**(28,020)**	**–**	**–**	**–**	**–**	**(28,020)**
16	**Cancellation of ordinary shares from treasury**	**(2,500)**	**–**	**–**	**2,500**	**–**	**–**	**–**
	At 30 September 2011	**9,852**	**24,981**	**61,344**	**8,671**	**(11,665)**	**10,730**	**103,913**

Notes	Year ended 30 September 2010	Called up share capital £'000	Special distributable reserve £'000	Merger reserve £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
	At 30 September 2009	14,852	53,001	61,344	3,671	33,618	10,280	176,766
	Net return on ordinary activities after taxation	–	–	–	–	(5,490)	3,906	(1,584)
10	Ordinary dividend paid	–	–	–	–	–	(3,705)	(3,705)
16	Buy-backs of ordinary shares and held in treasury	–	–	–	–	(26,532)	–	(26,532)
16	Cancellation of ordinary shares from treasury	(2,500)	–	–	2,500	–	–	–
	At 30 September 2010	12,352	53,001	61,344	6,171	1,596	10,481	144,945

The notes on pages 29 to 44 form part of these financial statements

Balance Sheet

at 30 September 2011

Notes		2011 £'000	2010 £'000
	Fixed assets		
11	Investments held at fair value through profit or loss	**99,031**	152,783
	Current assets		
13	Debtors	**6,873**	5,609
	Cash at bank and short-term deposits	**6,766**	501
		13,639	6,110
14	**Creditors:** amounts falling due within one year	**(8,757)**	(13,948)
	Net current assets/(liabilities)	**4,882**	(7,838)
	Net assets	**103,913**	144,945
	Capital and reserves		
16	Called up share capital	**9,852**	12,352
17	Special distributable reserve	**24,981**	53,001
18	Merger reserve	**61,344**	61,344
19	Capital redemption reserve	**8,671**	6,171
20	Capital reserve	**(11,665)**	1,596
21	Revenue reserve	**10,730**	10,481
	Shareholders' funds	**103,913**	144,945
22	**Net asset value per ordinary share**	**580.0p**	645.9p

These financial statements were approved and authorised for issue by the Board of Directors on 7 December 2011 and signed on their behalf by:

Rodney Dennis
Chairman

The notes on pages 29 to 44 form part of these financial statements

Cash Flow Statement

for the year ended 30 September 2011

Notes		2011 £'000	2011 £'000	2010 £'000	2010 £'000
24	**Net cash inflow from operating activities**		**4,292**		1,484
	Servicing of finance				
	Interest paid	**(82)**		(155)	
	Net cash outflow from servicing of finance		**(82)**		(155)
	Taxation				
	Tax recovered	**–**		183	
	Net tax recovered		**–**		183
	Financial investment				
	Purchases of investments	**(261,452)**		(148,777)	
	Sales of investments	**303,018**		176,939	
	Losses on index future contracts	**(1,832)**		–	
	Net cash inflow from financial investment		**39,734**		28,162
	Equity dividend paid		**(3,262)**		(3,705)
	Decrease in short-term deposits		**33**		14
	Net cash inflow before financing activities		**40,715**		25,983
	Financing				
	Shares repurchased and held in treasury	**(27,896)**		(25,225)	
	Loans repaid	**(9,097)**		(2,327)	
			(36,993)		(27,552)
	Increase/(decrease) in cash		**3,722**		(1,569)
	Reconciliation of net cash flow to movement in net debt				
	Increase/(decrease) in cash as above		**3,722**		(1,569)
	Decrease in short-term deposits		**(33)**		(14)
	Decrease in borrowings		**9,097**		2,327
	Exchange movements		**10**		884
	Movement in net debt		**12,796**		1,628
	Net debt at 1 October		**(8,609)**		(10,237)
25	**Net cash/(debt) at 30 September**		**4,187**		(8,609)

The notes on pages 29 to 44 form part of these financial statements

Notes to the Financial Statements

1 Accounting policies

(a) Basis of preparation

The financial statements have been prepared on a going concern basis and under the historical cost basis of accounting, modified to include the revaluation of investments at fair value. The financial statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice and with the Statement of Recommended Practice ("the SORP") for investment trusts and venture capital trusts issued by the Association of Investment Companies ("the AIC") in January 2009. All of the Company's operations are of a continuing nature. In the opinion of the Directors, the Company is engaged in a single segment business and therefore no segmental reporting is provided. The accounting policies applied for the year ended 30 September 2011 are unchanged from the previous year.

(b) Valuation of investments held at fair value through profit or loss

The listed investments are designated at fair value through profit or loss, as the Company's investment portfolio is managed and its performance is evaluated on a fair value basis, in accordance with a documented investment strategy. Information about the portfolio is provided internally on that basis to the Company's Board. Fair value is deemed to be bid price or the last trade price depending on the convention of the exchange on which the investment is quoted.

Changes in the fair value of investments held at fair value through profit or loss and gains and losses on disposal are recognised in the Income Statement as "gains or losses on investments held at fair value through profit or loss". Expenses that are incidental to the acquisition of an investment are expensed through the Income Statement as a capital item. Expenses that are incidental to the disposal of an investment are deducted from the proceeds of the sale of the investment. All purchases and sales are accounted for on a trade date basis.

As the Company's subsidiary company, Aberdeen European Investment Trust PLC, is in liquidation, the fair value is the net realisable value as estimated by the liquidator. Any change in fair value of this investment, save for distributions, is recognised as capital in the Income Statement.

(c) Derivative instruments

Where appropriate, certain permitted transactions involving derivative instruments are used. Derivative transactions into which the Company may enter include forward currency contracts, CFDs, futures and options, and are measured at fair value. The fair value is the quoted trade price for the contract.

Where such transactions are used to increase portfolio returns, if the circumstances support this, then the income and expenses derived from them are included in net derivative income via the revenue column of the Income Statement. Where such transactions are used to protect or enhance capital, if the circumstances support this, the gains and losses derived from them are included in losses on derivative instruments held at fair value through profit or loss via the capital column of the Income Statement. Any positions on such transactions open at the year end are reflected in the Balance Sheet at their fair value within current assets and current liabilities.

(d) Foreign currency

The results and financial position of the Company are expressed in sterling, which is the functional and presentational currency of the Company. Sterling is the functional currency because the Company is listed in the UK with a predominantly UK shareholder base.

Transactions recorded in overseas currencies during the year are translated into sterling at the appropriate daily exchange rates. Monetary assets and liabilities and equity investments held at fair value through profit or loss which are denominated in foreign currencies at the balance sheet date are translated into sterling at the exchange rates ruling at that date.

Any gains or losses on the translation of foreign currency balances, whether realised or unrealised, are taken to the capital or to the revenue return of the Income Statement, depending on whether the gain or loss is of a capital or revenue nature.

Notes to the Financial Statements
continued

1 Accounting policies (continued)

(e) Income

Dividends receivable from equity shares are taken to the revenue return on an ex-dividend basis except where, in the opinion of Directors, the dividend is capital in nature in which case it is taken to the capital return. Income from fixed interest debt securities and preference shares is recognised using the effective interest rate method in accordance with the SORP. The ordinary element of scrip dividends received in lieu of cash dividends is recognised as revenue. Any enhancement above the cash dividend is treated as capital.

Bank interest is accounted for on an accruals basis.

(f) Management and administrative expenses and finance charges

All expenses and finance charges are accounted for on an accruals basis. The annual management fee and loan and overdraft interest charges are allocated 75% to capital and 25% to revenue in line with the Board's expected long-term split of returns in the form of capital and income profits respectively.

In accordance with the SORP, tax relief, if applicable, is credited in respect of such allocations between capital and revenue using the marginal method.

In accordance with the SORP, the performance-related fee (when payable) is allocated 100% to capital, together with the tax relief in respect of such allocations, as the fee is based on outperformance against the Company's benchmark. The benchmark in the year under review was the FTSE World Europe ex UK Index (capital only) in sterling terms ("the Benchmark Index"). With effect from 1 October 2011 the FTSE World Europe ex UK Index on a total return basis is used as the benchmark against which performance is measured.

(g) Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using the effective tax rate of corporation tax for the accounting period.

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 return column of the Income Statement, then no tax relief is transferred to the capital return column.

Deferred taxation is provided on all timing differences that have originated but not reversed by the balance sheet date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of timing differences can be deducted. Any liability to deferred tax is provided at the average rate of tax expected to apply based on tax rates and laws that have been enacted or substantially enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

(h) Borrowings

Interest bearing bank loans and overdrafts are recorded initially at fair value, being the proceeds received, less direct issue costs. They are subsequently remeasured at amortised cost. Finance charges, including interest payable, premiums on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the Income Statement using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Notes to the Financial Statements

continued

1 Accounting policies (continued)

(i) Dividends payable to shareholders

Dividends payable to shareholders are recognised in the financial statements when they are paid, or in the case of final dividends, when they are approved by shareholders. Dividends are dealt with in the Reconciliation of Movements in Shareholders' Funds.

(j) Issue and repurchase of ordinary shares and associated costs

The costs of repurchasing ordinary shares, including related stamp duty and transaction costs, are taken directly to equity and reported through the Reconciliation of Movement in Shareholders' Funds, with the cost of the repurchase being charged to a capital distributable reserve. Share repurchase transactions are accounted for on a trade date basis. The nominal value of ordinary share capital repurchased and cancelled is transferred out of called-up share capital and into the capital redemption reserve, in accordance with Section 733 of the Companies Act 2006. Where shares are repurchased and held in treasury, the transfer to the capital redemption reserve is made if and when such shares are subsequently cancelled.

(k) Capital reserves

The following are accounted for in this reserve:

– gains and losses on disposals of investments;
– realised foreign exchange differences of a capital nature;
– cost of repurchasing ordinary share capital;
– other capital charges and credits charged to this account in accordance with the above policies;
– increases and decreases in the valuation of investments held at the year end; and
– unrealised foreign exchange differences of a capital nature.

(l) Consolidation

The Balance Sheet of the Company's subsidiary at 30 September 2011 has not been consolidated as control over the subsidiary company is now exercised by the liquidator, not the Company.

2 Losses from investments held at fair value through profit or loss and on derivative instruments

	2011 £'000	2010 £'000
(a) Gains on the sale of investments based on historical cost	**14,324**	15,162
Less: Revaluation losses recognised in previous years	**(14,395)**	(24,996)
Losses on investments sold in the year based on carrying value at previous balance sheet date	**(71)**	(9,834)
Revaluation (losses)/gains on investments held at 30 September	**(10,447)**	4,695
	(10,518)	(5,139)
(b) Realised losses on index future contracts	**(2,399)**	–
Unrealised gains on index future contracts	**567**	–
	(1,832)	(5,139)

Where deemed appropriate, the use of certain permitted derivative instruments, that may include futures and options, CFDs and forward currency contracts is made for efficient portfolio management purposes.

Notes to the Financial Statements

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3	Income from investments	2011 £'000	2010 £'000
	Listed investments:		
	Overseas dividends	**4,424**	5,146
	Stock dividends	**125**	117
		4,549	5,263

4	Other income	2011 £'000	2010 £'000
	Deposit interest	**8**	–
	Other interest	**–**	2
		8	2

5	Management and performance fees	2011 Income £'000	2011 Capital £'000	2011 Total £'000	2010 Income £'000	2010 Capital £'000	2010 Total £'000
	Management fee	**181**	**545**	**726**	301	904	1,205

A description of the basis for calculating the management fee is given in the Report of the Directors on pages 15 and 16. No performance fee is payable for the year ended 30 September 2011 (2010: £nil).

Management fees are allocated 25% to revenue and 75% to capital. The performance fee (when payable) is allocated 100% to capital.

6	Other administrative expenses	2011 £'000	2010 £'000
	Revenue:		
	Directors' fees (see Directors' Remuneration Report on page 24)	**82**	82
	Auditors' remuneration:		
	For audit services	**21**	21
	For non-audit services (in relation to EU tax reclaim services)	**–**	25
	AIC subscriptions	**17**	17
	Directors' and Officers' liability insurance	**16**	16
	Listing fees	**13**	12
	Printing and postage	**32**	41
	Registrar's fees	**46**	48
	Legal fees	**23**	36
	Other expenses	**84**	123
		334	421
	Capital:		
	Transaction costs incurred on acquisitions of investments	**317**	124
		651	545

Notes to the Financial Statements

continued

7	**Finance charges**	**2011 £'000**	2010 £'000
	On bank loans and overdrafts repayable within one year	**79**	158

Interest payable is allocated 25% to revenue and 75% to capital.

8 Taxation	**Year ended 30 September 2011 Revenue return £'000**	**Capital return £'000**	**Total £'000**	Year ended 30 September 2010 Revenue return £'000	Capital return £'000	Total £'000
(a) Analysis of tax charge for the year						
Corporation tax	**–**	**–**	**–**	63	59	122
Less: double taxation relief	**–**	**–**	**–**	(122)	–	(122)
Overseas tax suffered	**521**	**–**	**521**	659	–	659
Overseas tax credits	**(10)**	**–**	**(10)**	(3)	–	(3)
Total taxation for the year	**511**	**–**	**511**	597	59	656

(b) Factors affecting the tax charge for the year	**Year ended 30 September 2011 Revenue return £'000**	**Capital return £'000**	**Total £'000**	Year ended 30 September 2010 Revenue return £'000	Capital return £'000	Total £'000
Return on ordinary activities before taxation	**4,022**	**(13,261)**	**(9,239)**	4,503	(5,431)	(928)
Corporation tax at 28%	**563**	**(1,856)**	**(1,293)**	1,261	(1,521)	(260)
Corporation tax at 26%	**523**	**(1,724)**	**(1,201)**	–	–	–
Effects of:						
Non-taxable income	**(1,228)**	**–**	**(1,228)**	(1,195)	–	(1,195)
Expenses not deductible for tax purposes	**3**	**86**	**89**	6	35	41
Current year expenses not utilised	**139**	**163**	**302**	–	–	–
Overseas tax	**521**	**–**	**521**	659	–	659
Overseas tax credits	**(10)**	**–**	**(10)**	(3)	–	(3)
Double tax relief claim	**–**	**–**	**–**	(122)	–	(122)
Non-deductible capital losses	**–**	**3,331**	**3,331**	–	1,553	1,553
Marginal relief on corporation tax	**–**	**–**	**–**	(9)	(8)	(17)
	511	**–**	**511**	597	59	656

Investment trusts are exempt from corporation tax on capital gains provided that the Company obtains agreement from HM Revenue and Customs in respect of each accounting year that the tests under Section 1158 of the Corporation Tax Act 2010 have been met.

Due to the Company's status as an investment trust and the intention to continue meeting the conditions required to obtain approval in the foreseeable future, the Company has not provided deferred tax on any capital gains or losses arising on the revaluation or disposal of investments.

Notes to the Financial Statements

continued

8 Taxation (continued)

The Company has not recognised a deferred tax asset totalling £291,000 (2010: £nil) arising as a result of having unutilised management expenses and unutilised non-trade loan relationship deficits. These expenses will only be utilised if the Company has profits chargeable to corporation tax in the future.

9 Return per ordinary share

The return per ordinary share is based on the negative net return attributable to the ordinary shares of £9,750,000 (2010: £1,584,000) and on 19,193,454 ordinary shares (2010: 24,891,714), being the weighted average number of ordinary shares in issue during the year. The return per ordinary share can be further analysed between revenue and capital, as below.

	2011 £'000	2010 £'000
Net revenue return	**3,511**	3,906
Net capital loss	**(13,261)**	(5,490)
Net total return	**(9,750)**	(1,584)
Weighted average number of ordinary shares in issue during the year	**19,193,454**	24,891,714
Revenue return per ordinary share	**18.29p**	15.69p
Capital loss per ordinary share	**(69.09)p**	(22.06)p
Total return per ordinary share	**(50.80)p**	(6.37)p

The Company does not have any dilutive securities, therefore the basic and diluted returns per share are the same.

10 Dividends paid and payable on the ordinary shares

Dividends on ordinary shares	**Record date**	**Payment date**	**2011 £'000**	2010 £'000
Interim dividend (14.0p) for the year ended 30 September 2009	8 January 2010	29 January 2010	**–**	3,705
Interim dividend (16.5p) for the year ended 30 September 2010	10 December 2010	31 December 2010	**3,262**	–
			3,262	3,705

The interim dividend for the year ended 30 September 2011, which is in lieu of a final dividend, has not been included as a liability in these financial statements. The total dividend payable in respect of the financial year, which forms the basis of the retention test under Section 1158 of the Corporation Tax Act 2010, is set out below.

	2011 £'000
Revenue available for distribution by way of dividend for the year	**3,511**
Interim dividend (17.75p) for the year ended 30 September 2011 (based on 17,361,045 ordinary shares in issue at 5 December 2011)	**(3,082)**
Undistributed revenue for Section 1158 purposes	**429**

Notes to the Financial Statements

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11	Investments held at fair value through profit or loss	2011 £'000	2010 £'000
	Cost at 1 October	**135,424**	148,046
	Additions at cost (excluding transaction costs)	**262,575**	151,540
	Proceeds of disposal (net of transaction costs)	**(305,809)**	(179,324)
	Realised gains on disposals	**14,324**	15,162
	Cost at 30 September	**106,514**	135,424
	Investment holding (losses)/gains at 30 September	**(7,483)**	17,359
	Valuation at 30 September	**99,031**	152,783

The Company's investments are registered in the name of nominees of, and held to the order of, HSBC Bank plc, as custodian to the Company. There were no contingent liabilities in respect of the investments held at the year end.

Purchase transaction costs for the year ended 30 September 2011 were £317,000 (2010: £124,000). These comprise mainly stamp duty and commission. Sale transaction costs for the year ended 30 September 2011 were £257,000 (2010: £121,000).

12 Investments in subsidiaries

The Company owns the whole of the issued share capital of Aberdeen European Investment Trust plc, an unlisted company which was placed in members' voluntary liquidation on 26 February 1999. The investment is included in these accounts at its net realisable value as estimated by the liquidator. At 30 September 2011 the fair value of Aberdeen European Investment Trust plc was as follows:

	2011 £'000	2010 £'000
Fair value brought forward	**–**	30
Fair value adjustment	**–**	(30)
Fair value carried forward	**–**	–

13	Debtors	2011 £'000	2010 £'000
	Amounts receivable within one year:		
	Investments sold awaiting settlement	**6,404**	3,614
	Accrued income	**1**	–
	Prepaid expenses	**6**	14
	Overseas withholding tax recoverable	**453**	1,959
	Other debtors	**9**	22
		6,873	5,609

Notes to the Financial Statements

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14	Creditors	2011 £'000	2010 £'000
	Amounts payable within one year:		
	Investments purchased awaiting settlement	**5,877**	4,430
	Currency transactions (net)	**–**	9
	Accrued expenses and interest	**233**	331
	UK corporation tax	**68**	68
	Bank loan	**–**	9,097
	Bank overdraft	**2,579**	13
		8,757	13,948

The Company has an uncommitted multi-currency overdraft facility equal to the lesser of £40,000,000 and 25% of net assets with HSBC Bank plc (2010: £20,000,000 with the Bank of New York Mellon). Interest is charged at the bank's fluctuating base rate, plus a margin of 1.25% per annum. Borrowings are repayable on demand.

The Company has an overdraft facility of £5,000,000 (2010: £5,000,000) with The Royal Bank of Scotland plc. Interest on drawings is charged at 1.5% above the bank's fluctuating base rate. Borrowings are repayable on demand.

15 Financial risk management policies and procedures

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

These financial risks: market risk (comprising market price risk, currency risk and interest rate risk), credit risk, liquidity risk and gearing, and the Directors' approach to the management of these risks, are set out below and have not changed from the previous accounting period. The Board and the Manager coordinate the Company's risk management.

15.1 Market risk

The fair value of a financial instrument held by the Company may fluctuate due to changes in market prices. This market risk comprises market price risk (see note 15.1.1), currency risk (see note 15.1.2) and interest rate risk (see note 15.1.3). The Board reviews and agrees policies for managing these risks. The Manager assesses the exposure to market price risk when making each investment decision and monitors the overall level of market price risk on the whole of the investment portfolio on an ongoing basis.

15.1.1 Market price risk

The Company is an investment company and as such its performance is dependant on the valuation of its investments. Consequently, market price risk is the most significant risk to which the Company is exposed. The Company's investment objective and policy require it to invest mainly in listed Continental European stocks.

Notes to the Financial Statements

continued

15 Financial risk management policies and procedures (continued)

At 30 September 2011 the fair value of the Company's assets exposed to market price risk was £99,031,000 (2010: £152,783,000). The fair value of the investments in the portfolio is normally their bid-market price. The market price of investee companies' shares is subject to their performance, supply and demand for the shares and investor sentiment regarding the companies, their industry sectors and the countries in which they operate. The 35% fall in the value of assets exposed to market risk was mainly attributable to the combination of decreases in the market prices of investments held, appreciation of sterling against Continental European currencies, buy-backs of the Company's own shares and a reduction in the level of gearing.

The Company invests in a diversified portfolio of investments. In accordance with the Company's investment objective and policy the portfolio contains between 50 and 60 stocks, with a maximum single stock weighting of 10% of the net asset value ("NAV") of the portfolio at the time of investment. Stocks weighted at 5% of the portfolio or more will not exceed 40% of the NAV in aggregate. The minimum stock weight is 1% of NAV at the time of investment. The largest individual stock at the year end represented 6.5% of the value of the portfolio. The Company may use derivative instruments (such as futures and options) for the purpose of efficient portfolio management up to 10% of net assets.

The level of risk relative to the benchmark is increased by over or underweighting industry sectors and, to a lesser extent, country exposures and stock exposures relative to the benchmark, which tends to concentrate risk in those over and underweighted areas. As can be seen from the chart on page 10 the largest industry sector weighting variances at the year end were in the financials, utilities and telecoms (underweight), technology and health care (overweight) sectors. These weightings reflect the strategy outlined in the Portfolio Manager's Report on pages 6 and 7.

To illustrate the Company's sensitivity to market prices, a 10% change to the market value (in sterling terms) of the equity portfolio at 30 September 2011 would generate a corresponding increase or decrease in the NAV per ordinary share of 9.42% or £10 million and, because of the effect on the management fee, would have a converse effect on revenue return of around 0.10p per ordinary share. The effect on capital return would be materially the same as the effect on net assets.

15.1.2 Currency risk

The majority of the Company's assets are denominated in currencies other than sterling so the Company's total return and Balance Sheet can be significantly affected by currency fluctuations. No hedging of the currency exposure is currently undertaken. Revenue received in currencies other than sterling is converted into sterling on, or shortly after, the date of receipt. Whilst the Board and the Manager monitor geographical and currency exposure it is not a key determinant of investment decisions. At the year end approximately 98.2% (2010: 99.4%) of the Company's total assets were denominated in currencies other than sterling, the largest proportion being euro, at 66.1% (2010: 69.7%) of total assets.

Notes to the Financial Statements

continued

15 Financial risk management policies and procedures (continued)

The table below shows, by currency, the split of the Company's non-sterling monetary assets and investments at the year end:

	2011 £'000	2010 £'000
Monetary assets (net)		
Cash and short-term receivables:		
Euro	**10,109**	1,274
Swiss franc	**1,470**	2,859
Norwegian kroner	**14**	98
US dollar	**–**	84
Danish kroner	**–**	1,348
	11,593	5,663
Non-monetary assets		
Non-current asset investments held at fair value:		
Euro	**64,363**	109,305
Swiss franc	**23,539**	28,657
Swedish krona	**8,680**	7,099
Norwegian kroner	**–**	5,522
Danish kroner	**2,449**	2,200
Total	**110,624**	158,446

The level of assets exposed to currency risk decreased by approximately 30% during the year. In common with the exposure to market price risk, this was attributable to a combination of decreases in the market prices of investments held, appreciation of sterling against Continental European currencies, buy-backs of the Company's own shares and reducing the level of gearing. Subject to this the relative levels of exposure to currencies at the beginning and end of the year were broadly representative of levels through the period.

As can be seen from the table above the most significant currency exposures are to the euro and Swiss francs. Over the financial year to 30 September 2011, sterling appreciated by 0.6% against the euro (2010: appreciated by 5.5%) and appreciated by 8.1% against the Swiss franc (2010: depreciated by 7.2%). It is not possible to forecast how much exchange rates might move in the next financial year, but based on the movements in the above two major currencies over the last two years, it appears reasonably possible that rates could change by 10%.

The following table illustrates the Company's sensitivity to movements in exchange rates relative to sterling. The sensitivity analysis is based on the Company's non-sterling monetary assets and investments held at the balance sheet date and assumes a 10% appreciation or depreciation of sterling against each of the currencies to which the Company is exposed, with all other variables held constant. A 10% appreciation of sterling would reduce the value of net assets by approximately 9.2% or £9.5 million (2010: 9.1% or £13.1 million). Revenue return for the forthcoming year would be reduced by £275,000 (2010: £340,000). The effect on capital return would be materially the same as the effect on net assets.

	2011 Net assets £'000	2011 Revenue £'000	2010 Net assets £'000	2010 Revenue £'000
Euro	**6,183**	**187**	9,078	252
Swiss francs	**2,257**	**69**	2,713	59
Other currencies	**1,091**	**19**	1,354	29
	9,531	**275**	13,145	340

Notes to the Financial Statements

continued

15 Financial risk management policies and procedures (continued)

It should be noted that a number of investee companies derive a proportion of their profits from markets subject to currencies other than that in which their shares are denominated, so changes in the relevant currency exchange rates relative to each other are also likely to have an indirect impact. Also, the above illustration is based on exposures at the year end. Exposures may be subject to change during the year as a result of investment decisions.

Liabilities denominated in foreign currencies at the year end and prior year relate to bank borrowings and investment transactions awaiting settlement. The balance outstanding at the year end was not material in the context of currency risk.

15.1.3 Interest rate risk

The Company finances part of its activities through the use of an uncommitted multi-currency overdraft facility equal to the lesser of £40,000,000 and 25% of net assets provided by HSBC Bank plc (2010: £20,000,000 provided by Bank of New York Mellon). Interest rates are set at the time drawings are made based on the bank's base rate, plus a margin of 1.25% per annum. During the year, the maximum drawn under the facility was €15,000,000 (2010: €21,000,000) and the weighted average interest rate was 2.32% (2010: 1.67%). No hedging of the interest rate is undertaken. At 30 September 2011 there were drawings of £2,579,000 outstanding, of which the equivalent of £349,000 were in foreign currencies (2010: €10,500,000, equivalent to £9,097,000).

The Company also has a short-term overdraft facility of £5,000,000 (2010: £5,000,000) provided by The Royal Bank of Scotland plc. Interest on drawings is charged at 1.5% above the bank's fluctuating base rate and no hedging of the rate is undertaken. The Manager minimises the risk of exposure to excessive interest costs by monitoring the Company's cash position on a regular basis.

The Company also earns interest on its cash and short-term deposits. Loan and overdraft drawings and deposits are rarely fixed for periods of more than one week.

At 30 September 2011, financial assets and liabilities exposed to floating interest rates were as follows.

	2011 £'000	2010 £'000
Financial assets		
Cash balances	**6,766**	501
Financial Liabilities		
Bank loan	**–**	(9,097)
Bank overdraft	**(2,579)**	(13)

The Company has no direct exposure to fixed interest rates.

The year end amounts are not representative of the exposure to interest rates either during the year just ended nor for the year ahead, since the level of borrowings and/or cash held will be affected by the strategy being followed in response to the Board's and Manager's perception of market prospects and the investment opportunities available at any particular time. However, to illustrate the potential sensitivity to changes in interest rates, if £26 million was drawn from the uncommitted multi-currency overdraft facility (based on the 20% gearing limit set by the Board), a change of 0.5% in the rate of interest charged would, over the course of a year, amount to £130,000 (ignoring any exchange rate movements), less than 0.2% of year end net assets.

Notes to the Financial Statements

continued

15 Financial risk management policies and procedures (continued)

15.2 Credit risk

Credit risk is the Company's exposure to financial loss from failure of a counterparty to deliver securities or cash for acquisitions or disposals of investments or to repay deposits. The Company manages credit risk by using brokers from a database of approved financial institutions who have undergone rigorous due diligence tests by the Manager's risk management team and by dealing through Henderson Global Investors Limited with banks approved by the Financial Services Authority.

At 30 September 2011, the maximum exposure to credit risk was £13,170,000 (2010: £4,115,000), comprising:

	2011 £'000	2010 £'000
Cash at bank	**6,766**	501
Investments sold awaiting settlement	**6,404**	3,614

All of the above financial assets are current, their fair values are considered to be the same as the values shown and the likelihood of default is considered to be low.

15.3 Liquidity risk

Liquidity risk is the possibility of the Company failing to realise sufficient assets to meet its financial obligations. The Company minimises this risk by having a bias to larger capitalised companies, by investing in listed companies and by ensuring that it has adequate cash and credit facilities in place to meet its obligations. The Company's liquidity is mostly held in euros, almost entirely on interest-bearing current accounts or short-term deposits in the money market. Deposits are rarely fixed for terms in excess of one week and, if amounts are substantial, are placed with different deposit takers so that, at any given time, deposits do not exceed €8,000,000 with any one deposit taker. Cash requirements are monitored on a regular basis by the Manager.

At 30 September 2011, the fair value of financial liabilities was £8,689,000 (2010: £13,880,000), comprising:

	2011 £'000	2010 £'000
Due within one month:		
Investments purchased awaiting settlement	**5,877**	4,430
Bank loan	**–**	9,097
Bank overdraft	**2,579**	13
Accrued expenses and interest	**233**	331
Currency transactions (net)	**–**	9

15.4 Gearing

Market risks can be amplified by gearing. As discussed above, in addition to using shareholders' funds to finance investments the Company can also invest funds available from drawings on its loan and overdraft facilities. Such gearing will exaggerate the effect on the NAV of a change in the value of the portfolio. If the Company's uncommitted multi-currency overdraft facility was extended to the level permitted by the Board the bank gearing would amount to 20% of net assets and in those circumstances a change of 10% in the value of the portfolio would be expected to change the NAV by approximately 12.0%.

Notes to the Financial Statements

continued

15 Financial risk management policies and procedures (continued)

As noted on page 39 in the interest rate risk section, the level of borrowings and/or cash held during the year will be affected by the strategy being followed in response to the Board's and Manager's perception of market prospects and the investment opportunities available at any particular time.

At the year end there was bank gearing of 2.5% (2010: 6.3%); net gearing was nil.

15.5 Fair value hierarchy

Under FRS 29 'Financial Instruments: Disclosures' the Company is required to classify fair value measurements using a fair value hierarchy that reflects the significance of these inputs used in making the measurements. The fair value hierarchy shall have the following levels:

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

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

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

Categorisation within the hierarchy has been determined on the basis of the lowest level of input that is significant to the fair value measurement of the relevant asset. Financial assets and liabilities measured at fair value are grouped into the fair value hierarchy at 30 September 2011 and the previous year as follows:

2011	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Financial assets at fair value through profit or loss:				
Quoted equities	**99,031**	**–**	**–**	**99,031**

2010	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit or loss:				
Quoted equities	152,783	–	–	152,783

The fair value of the Company's investments in quoted equities has been determined by reference to their quoted bid prices at the reporting date. Quoted equities included in Level 1 are actively traded on recognised stock exchanges.

15.6 Capital management policies and procedures

The Company's capital management objectives are to ensure that it will be able to continue as a going concern; and to maximise the revenue and capital return to its equity shareholders. This is achieved through an appropriate balance of equity capital and debt.

The Company's capital at 30 September 2011 comprises its equity share capital, reserves and loans or overdrafts that are shown in the Balance Sheet at a total of £103,913,000 (2010: £144,945,000).

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

- the planned level of gearing, which takes into account the Manager's view on the market;
- the need to buy back equity shares, either for cancellation or to hold in treasury, which takes account of the difference between the NAV per share and the share price (i.e. the level of share price discount or premium) as well as the discount of the peer group and the level of the equity market;

Notes to the Financial Statements

continued

15 Financial risk management policies and procedures (continued)

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

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

The Company is subject to several externally imposed capital requirements:

– borrowings are not to exceed 25% of the adjusted NAV;

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

– in order to be able to pay dividends out of profits available for distribution by way of dividends, the Company has to be able to meet the capital restriction tests imposed on investment companies by company law.

The Company has complied with these requirements.

The Company's objectives, policies and procedures for managing capital are unchanged from last year.

16 Called up share capital

	2011 £'000	2010 £'000
Allotted, issued and fully paid		
17,917,040 (2010: 22,441,860) ordinary shares of 50p each	**8,959**	11,221
1,787,109 (2010: 2,262,289) ordinary shares of 50p each held in treasury	**893**	1,131
	9,852	12,352

During the year to 30 September 2011, the Company repurchased 4,524,820 (2010: 4,463,802) ordinary shares, to be held in treasury, at a cost of £28,020,000 (2010: £26,532,000). 5,000,000 (2010: 5,000,000) ordinary shares held in treasury were cancelled during the year. The ordinary shares held in treasury have no voting rights and are not entitled to dividends.

17 Special distributable reserve

	2011 £'000	2010 £'000
Balance brought forward	**53,001**	53,001
Cost of shares repurchased	**(28,020)**	–
Balance at 30 September	**24,981**	53,001

The special distributable reserve was created on 11 July 2007 following the cancellation of the share premium account and the capital redemption reserve and is available to fund market purchases and the subsequent cancellation of own shares, to fund the payment of dividends and for other distributable purposes (the cost of shares repurchased have previously been charged against the capital reserve, but as this is now in deficit, such costs have been charged to the special distributable reserve as noted above).

18 Merger reserve

The merger reserve represents the premium over the nominal value of ordinary shares issued in March 1997 in connection with the acquisition of The German Investment Trust plc.

Notes to the Financial Statements

continued

19	**Capital redemption reserve**	**2011 £'000**	2010 £'000
	Balance brought forward	**6,171**	3,671
	Nominal value of ordinary shares cancelled from treasury	**2,500**	2,500
	Balance at 30 September	**8,671**	6,171

The capital redemption reserve represents the nominal value of ordinary shares repurchased and cancelled subsequent to 11 July 2007.

20	**Capital reserve**	**2011 £'000**	2010 £'000
	Balance brought forward	**1,596**	33,618
	(Losses)/gains on disposal of investments	**(71)**	15,162
	Movement in fair value of investments	**(10,447)**	(20,301)
	Fair value adjustment to subsidiary	**–**	(30)
	Realised losses on index future contracts	**(2,399)**	–
	Unrealised gains on index future contracts	**567**	–
	Cost of shares repurchased	**–**	(26,532)
	Exchange gain on currency transactions	**10**	884
	Management fee allocated to capital	**(545)**	(904)
	Interest payable allocated to capital	**(59)**	(118)
	Tax relief on fees and interest payable allocated to capital	**–**	(59)
	Transaction costs incurred on acquisitions of investments	**(317)**	(124)
	Balance at 30 September	**(11,665)**	1,596

21	**Revenue reserve**	**2011 £'000**	2010 £'000
	Balance brought forward	**10,481**	10,280
	Net revenue return for the year after tax	**3,511**	3,906
	Net dividends paid (note 10)	**(3,262)**	(3,705)
	Balance at 30 September	**10,730**	10,481

The revenue reserve represents the amount of the Company's reserves which are distributable by way of dividend.

22 Net asset value per ordinary share

The NAV per ordinary share is based on the net assets attributable to the ordinary shares of £103,913,000 (2010: £144,945,000) and on 17,917,040 (2010: 22,441,860) shares in issue on 30 September 2011, excluding treasury shares.

Notes to the Financial Statements

continued

23 Capital commitments and contingent liabilities

Capital commitments

There were no capital commitments as at 30 September 2011 (2010: £nil).

Contingent liabilities

There were no contingent liabilities as at 30 September 2011 (2010: £nil).

24 Reconciliation of return before finance costs and taxation to net cash inflow from operating activities

	2011 £'000	2010 £'000
Net return before finance costs and taxation	**(9,160)**	(770)
Stock dividends	**(125)**	(117)
Losses on investments held at fair value	**10,835**	5,263
Losses on index futures	**1,832**	–
Other currency gains	**(10)**	(884)
Fair value adjustment on subsidiary	**–**	30
(Increase)/decrease in accrued income	**(1)**	12
Decrease/(increase) in prepayments and other debtors	**1,514**	(354)
Decrease in accrued expenses (excluding interest)	**(82)**	(1,108)
Tax deductible at source from investment income	**(511)**	(588)
Net cash inflow from operating activities	**4,292**	1,484

25 Analysis of changes in debt

	At 30 September 2010 £'000	Cash flow £'000	Movement in borrowings £'000	Movement in deposits £'000	Exchange gain £'000	At 30 September 2011 £'000
Cash at bank	468	6,288	–	–	10	**6,766**
Short-term deposits	33	–	–	(33)	–	**–**
Net cash at 30 September	501	6,288	–	(33)	10	**6,766**
Bank loan	(9,097)	–	9,097	–	–	**–**
Bank overdraft	(13)	(2,566)	–	–	–	**(2,579)**
Net debt at 30 September	(8,609)	3,722	9,097	(33)	10	**4,187**

26 Related party transactions

Gartmore Investment Limited ("Gartmore") was the Manager and Secretary of the Company until 15 July 2011 and was regarded as a related party. On 15 July 2011 the services provided by Gartmore were novated to Henderson Global Investors Limited ("Henderson") and its subsidiaries and so Henderson is now regarded as a related party. During the year £554,000 was payable to Gartmore and £172,000 was payable to Henderson for the provision of services to the Company (2010: £1,205,000 was payable to Gartmore for comparable services). At the balance sheet date, management fees totalling £134,000 were accrued to be paid to Henderson (2010: £177,000 accrued to be paid to Gartmore).
On 25 November 2011 a new management agreement between the Company and Henderson became effective, details of which are given on pages 15 and 16 of this report.

The compensation payable to key management personnel comprised £82,000 (2010: £82,000) paid by the Company to the Directors in respect of services to the Company as shown in the Directors' Remuneration Report on page 24. The Company has no employees.

Independent Auditor's Report

to the Members of Henderson European Focus Trust plc

We have audited the financial statements of Henderson European Focus Trust plc for the year ended 30 September 2011 which comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of Directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 23, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 September 2011 and of its return for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules, we are required to review:

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

Julian Bartlett (Senior Statutory Auditor)
for and on behalf of Grant Thornton UK LLP
Statutory Auditors, Chartered Accountants
London
7 December 2011

Glossary of Terms

AIC
The Association of Investment Companies.

Gearing
The gearing percentage reflects the amount of borrowings (i.e. bank loans or overdrafts) the Company has used to invest in the market. This figure indicates the extra amount by which shareholders' funds would move if the Company's investments were to rise or fall.

This is calculated by dividing total assets, before deducting borrowings and prior charges, by net assets, expressed as a percentage.

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

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

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

Net asset value ("NAV") per ordinary share
The value of the Company's assets (i.e. investments and cash held) less any liabilities (i.e. bank loans or overdrafts) for which the Company is responsible, divided by the number of shares in issue. The aggregate NAV is also referred to as shareholders' funds on the Balance Sheet. The NAV is published daily.

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

Prior charge
The term given to either borrowings or any class of security which, in a winding-up of the Company, ranks ahead of the final beneficiary of surplus assets, usually ordinary or capital shares.

Total expense ratio
This is the total expenses (excluding transaction costs, performance fees and finance costs) incurred by the Company, including those charged to capital, expressed as a percentage of the average shareholders' funds over the year calculated on a monthly basis.

Total returns
This is the return on the share price or NAV taking into account both the rise and fall of share prices and the dividends paid to shareholders. Any dividends received by a shareholder are assumed to have been reinvested in either additional shares (for share price total return) or the Company's assets (for NAV total return).

General Shareholder Information

Release of results
Half year results are announced in May. Full year results are announced in December.

Annual general meeting
The AGM is held in London in January.

BACS
Dividends can be paid to 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 48) 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.

Disability Act
Copies of this report and other documents issued by the Company are available from the 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, Equiniti Limited, which has installed textphones to allow speech and hearing impaired people who have their own textphone to contact them directly, without the need for an intermediate operator by dialling 0871 384 2457. Specially trained operators are available during normal business hours to answer queries via this service.

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

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

Share price listings
The market price of the Company's ordinary shares is published daily in The Financial Times and other leading newspapers. The Financial Times also shows figures for the estimated net asset value ("NAV") per share and discount.

Performance details/share price information
Details of the Company's share price and NAV per share can be found on the website. The Company's NAV is published daily.

Shareholder details
Shareholders who hold their shares in certificated form can check their shareholding with the registrar, Equiniti Limited, via **www.equiniti.com**. Please note that to gain access to your details on the Equiniti site you will need the holder reference number shown on your share certificate.

ISIN/SEDOL number
The ISIN code/SEDOL (Stock Exchange Daily Official List) number of the Company's shares is GB0005268858. The mnemonic code is HEFT.

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

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

Website
Further information on the Company can be found at **www.hendersoneuropeanfocus.com**

Warning to Shareholders

Shareholders should be wary of unsolicited telephone calls or correspondence concerning the Company and offering investment advice, offers to buy shares at a discount or free company reports.

It is extremely unlikely that Henderson European Focus Trust plc, its Manager (Henderson Global Investors Limited) or its registrar (Equiniti Limited) would make unsolicited telephone calls to shareholders. In the event that the Company or its advisers did make unsolicited calls, shareholders would never be asked to confirm their personal details and such calls would relate only to official documentation already circulated to shareholders and never be in respect of offering investment advice or unpublished investment or financial information regarding the Company.

If you are in any doubt about the veracity of an unsolicited phone call, please call the Secretary on the telephone number provided on page 48.

Advisers

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

Portfolio Manager: John Bennett

Secretary
Henderson Secretarial Services Limited,
represented by Debbie Fish ACIS

Registered number
Registered as an investment company in England and Wales No. 427958

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Calls to this number cost 8p per minute from a BT landline. Other providers' costs may vary. Lines are open 8.30 a.m. to 5.30 p.m., Monday to Friday.

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aic
The Association of Investment Companies

London Stock Exchange
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