The Henderson Smaller Companies Investment Trust plc

Report and Financial Statements for the year ended 31 May 2009

The Henderson Smaller Companies Investment Trust plc

The objective of The Henderson Smaller Companies Investment Trust plc is to maximise shareholders' total returns by investing mainly in smaller companies that are quoted in the United Kingdom. Our portfolio of investments is managed by a team of specialists at Henderson Global Investors. At 31 May 2009 there were 115 holdings with a market value of £174 million. As an investment trust, we are exempt from tax on the capital gains arising on the investments.

Investment selection

The investment selection process seeks, by rigorous research, to identify high-quality smaller companies with strong growth potential. Generally new investments are made in constituents of the benchmark index. Investments may continue to be held when the underlying companies grow out of the smaller companies sector but strong selling disciplines are applied regardless of the size of the entity.

Benchmark

Hoare Govett Smaller Companies Index (excluding investment companies).*

Manager

The Board has appointed Henderson Global Investors to manage the investments and to provide the related administrative services.

Independent board

The directors, who are independent of the Manager, meet regularly to consider investment strategy and to monitor the performance of the Company.

Website

Information about the Company can be found on the website www.hendersonsmallercompanies.com

*prior to 1 June 2003 the benchmark was the FTSE SmallCap Index (excluding investment companies)

Financial highlights

	31 May 2009	31 May 2008
Total net assets	**£156 million**	£255 million
Net asset value per ordinary share	**202.1p**	317.6p
Net asset value per ordinary share on an alternative basis*	**196.9p**	310.9p
Market price per ordinary share	**167.0p**	252.0p
Total return per ordinary share	**(115.4)p**	(79.3)p
Revenue return per ordinary share	**6.3p**	4.6p
Dividend per ordinary share	**3.0p**	2.2p
Special dividend per ordinary share	**2.6p**	1.6p
Total dividend per ordinary share	**5.6p**	3.8p
Gearing†	**11.4%**	12.3%

*Calculated by deducting from the net assets the debt at its market value, as disclosed in note 20 on page 46.

†Defined here as the total market value of the Group's investments less shareholders' funds as a percentage of shareholders' funds.

Performance
Comparative total return figures for periods ended 31 May 2009:

	1 year %	2 years %	3 years %	5 years %	10 years %
The Henderson Smaller Companies Investment Trust plc: net asset value per share*	(35.5)	(49.0)	(28.3)	17.6	(33.9)
The Henderson Smaller Companies Investment Trust plc: share price	(32.6)	(47.2)	(26.2)	29.2	(26.8)
Hoare Govett Smaller Companies Index (excluding investment companies)	(19.5)	(36.6)	(15.8)	30.3	65.3
FTSE SmallCap Index (excluding investment companies)	(27.1)	(49.4)	(36.9)	(12.5)	0.5
FTSE All-Share Index	(23.7)	(29.1)	(13.7)	21.9	7.0

Source: Datastream (except the net asset value per share return over one year).

*The net asset value total return figures include an adjustment to reflect the fact that investments are now valued at bid prices (ie at fair value) rather than at mid-market prices.

Historical record

Year end	Market price per ordinary share in pence	Net asset value per ordinary share in pence	Earnings per ordinary share in pence	Net dividends per ordinary share in pence
31 May 1999	243.5	311.8	2.33	3.95
31 May 2000	341.5	423.8	1.14	0.50
31 May 2001	278.0	328.9	(0.34)	0.50
31 May 2002	150.5	181.1	(0.77)	0.50
31 May 2003	96.0	121.8	0.20	0.50
31 May 2004	134.75	172.1	1.17	1.00
31 May 2005	169.5	214.5*	1.44*	1.15
31 May 2006	232.75	280.4*	1.83*	1.35
31 May 2007	323.5	392.1	2.12	1.70
31 May 2008	252.0	317.6	4.64	3.80†
31 May 2009	**167.0**	**202.1**	**6.30**	**5.60†**

*The figures for 2006 (and the figures for subsequent years) have been calculated in accordance with International Financial Reporting Standards ("IFRS") and the figure for 2005 was restated on first time adoption of IFRS. The figures for the earlier years have not been restated.

†Including a special dividend of 2.60p (2008: 1.60p).

Directors


Dudley Fishburn


Sally Davis


James Nelson


Keith Percy


Mary Ann Sieghart

Dudley Fishburn (Chairman) joined the Board in 1996. He is an independent director of Beazley Group plc and Philip Morris International Inc. He retired recently from the Board of HSBC Bank plc. He was for nine years a Member of Parliament and is a former Treasurer of the National Trust and a former executive editor of The Economist.

Sally Davis joined the Board in 2001 and became Chairman of the Audit Committee in 2003. She is CEO, BT Wholesale, one of the four operating divisions of BT Group plc. A former Vice President of Bell Atlantic and NYNEX, she is a Fellow of University College London. She is also a director of Logitech International S.A., a Swiss company quoted on Nasdaq, and a director of the Department for Transport.

James Nelson joined the Board in 2002. He is the Company's Senior Independent Director. He was formerly an executive partner of Graphite Capital and is a former chairman of the BVCA. He is a director of Intermediate Capital Group PLC.

Keith Percy joined the Board in 2006. He is the Chairman of GLG Partners UK Holdings Limited. He is also Chairman of Brunner Investment Trust plc and a director of JPMorgan Japanese Investment Trust plc and Standard Life Equity Income Trust plc.

Mary Ann Sieghart joined the Board on 18 July 2008. She was Assistant Editor of The Times from 1998 to 2007. She is also a former City Editor and Lex columnist. She sits on the Council of Tate Modern and the Advisory Council of Into University and is a Trustee of the Radcliffe Trust and Vice-President of the National Association for Gifted Children. She presents 'Newshour' on the BBC World Service.

All the directors are independent and all are members of the Management Engagement Committee and the Nomination Committee. Mr Fishburn chairs these two committees.

Mrs Davis chairs the Audit Committee, the other members of which are Mr Nelson, Mr Percy and Ms Sieghart.

Management


Neil Hermon


Geoffrey Rice

Neil Hermon joined Henderson Global Investors in November 2002 as head of its UK smaller companies team. A chartered accountant, he was formerly head of smaller companies at Morley, the fund management arm of Aviva.

Geoffrey Rice ACIS has acted as company secretary since 1998. He is an authorised representative of Henderson Secretarial Services Limited, the corporate company secretary.

Chairman's Statement

Dudley Fishburn

In the past year, global markets faced their biggest crisis since 1929 and smaller British companies in particular suffered turbulence and loss on the markets. Against this background, your Company has had a very disappointing year. Our net asset value fell 35.5%, compared to a drop in our benchmark of 19.5%.

Although our gearing was a factor, poor stock selection played the major part in our bad performance. Paradoxically it was our larger, safer companies that were worst hit, though none has failed as a business. For this reason, we face the coming year with much greater confidence. A full attribution analysis is given on page 10 of this report.

As you can imagine, your Board has actively and repeatedly examined its own performance as well as that of our fund manager and, indeed, investment house. We have met a number of our shareholders. We have bought back stock. When making our assessments, we have reflected that for five years out of six our fund manager, Neil Hermon, has outperformed our benchmark index. Between 2003 and 2008 his performance added 170% to the value of our shares. But there is no hiding the fact that this year has eradicated most of those gains. Your Board, after due consideration, retains confidence in Neil's abilities and his commitment to our fund, as well as the role of Henderson. We look forward to a return to form in the coming year.

Our income has held up well. The revenue return per share was 6.3p, ahead of the 4.6p of the previous year. The investment income per share fell slightly, from 8.5p to 8.0p, reflecting the fact that some of the companies in our portfolio have cut their dividends, but our costs have fallen, in particular short-term borrowing costs and the management fee (which is based on the value of the portfolio). We have received a further refund of VAT, together with interest, and, as required by the accounting rules, we have recognised the amounts for earlier periods (1990 to 1996) that we now expect to receive. In aggregate the benefit to the Income Statement is more than it was last year. We propose a final dividend for the year of 3.00p per share, which excludes the VAT refund and the related interest, and a special dividend of 2.60p per share in respect of the VAT refund and interest. Both payments are subject to shareholder approval at the Annual General Meeting in October.

During the year we bought back 3.1 million shares, equivalent to about 4% of those in issue at 31 May 2008, at an average discount (calculated by valuing the debenture stock at par) of around 27%. We have bought back a further 2.2 million shares since the year end.

In conclusion, we have suffered through some dreadful markets. I look forward to reporting on a better year in twelve months' time.

J Dudley Fishburn
Chairman
30 July 2009

Fund Manager's Review

Neil Hermon

Analysis of the portfolio by sector	**31 May 2009 %**	31 May 2008 %
Industrials	**41.1**	47.9
Consumer Services	**15.8**	10.6
Financials	**12.0**	11.5
Technology	**9.3**	9.7
Oil & Gas	**6.2**	7.4
Basic Materials	**6.1**	6.6
Consumer Goods	**5.7**	3.0
Health Care	**3.8**	3.3
	100.0	100.0

Market – year in review

The year has clearly been a traumatic one for the world economy and equity markets. The downturn in the US housing market and the sub-prime mortgage crisis evident last summer spiralled into a fully fledged credit crisis. The subsequent collapse of Lehman Brothers heralded an unprecedented period when it felt as if no financial institution was safe and that the whole financial system was close to collapse. Massive government intervention brought us back from the brink but the effect on business and consumer confidence was significant. The global economy went into a sharp slowdown and most Western economies have now fallen into recession. Corporate profitability has been under significant pressure and financing has been increasingly difficult as banks are looking to de-leverage their own balance sheets. Stock markets fell sharply around the world and at the low point in early March 2009 had nearly halved from earlier peaks. Although 2009 has seen a progressive stabilisation of markets, they have remained nervous and volatile. After under-performing in 2008 smaller companies have enjoyed a resurgence in 2009 ensuring that over the year they performed comparably to larger companies.

Fund performance

The Trust had a poor year in performance terms – falling in absolute terms and under-performing on a relative basis. The net asset value fell 35.5%, on a total return basis, which comes after a 163% rise in the previous five years. This compares to falls of 19.5% (total return) from the Hoare Govett Smaller Companies Index (excluding investment companies) and 27.1% (total return) from the FTSE SmallCap Index (excluding investment companies). The underperformance came from underlying negative portfolio performance and, to a lesser extent, gearing in the Trust. The year under review was the first year of underperformance after five consecutive years of out-performance of our benchmark, the Hoare Govett Smaller Companies Index (excluding investment companies).

It was a disappointing year for a number of the larger stocks in our portfolio. Of particular note WSP and WS Atkins, the consulting engineers, and Interserve, the international contractor, all fell sharply. This was not due to the underlying performance of these companies, which was generally very respectable, but to a de-rating by the market in regard to their future profitability. We believe that all three of these companies are now materially undervalued and that their future earnings will be more resilient than the market fears. Additionally the widespread downturn in industrial markets in the latter part of 2008 meant we saw profit warnings from our holdings in e2v technologies, the sensors and tubes manufacturer, and Laird Group, the electronic component manufacturer. Both these companies have fallen sharply but we continue to believe that their scope for recovery is significant.

In terms of positive contributors to fund performance, we saw excellent performances from Bellway, the UK housebuilder, and Balfour Beatty, the international contracting and support services group. Both of these companies showed their qualities by outperforming their immediate peer group in profit terms. Fidessa, the software provider to the securities market, performed strongly as the company maintained its growth record despite its customer base experiencing difficult trading conditions.

Portfolio Activity

Trading activity in the portfolio reflected an average holding period of seven years. This is consistent with our approach, which is to consider our investments as long term in nature and to avoid unnecessary turnover. The focus has been on adding stocks to the portfolio that have good growth prospects, sound financial characteristics and strong management, at a valuation level that does not reflect these

Fund Manager's Review

continued

strengths. Likewise we have been employing strong sell disciplines to cut out stocks that fail to meet these criteria.

In the year we have added to a number of existing positions in our portfolio. These include Bluebay Asset Management, the fixed interest fund manager, where we believe the recent recovery in bond markets and their strong relative fund performance heralds the prospect of a significant recovery in earnings. Additionally we increased our exposure to stocks involved in the UK housing market. We believe that after the recent fall in house prices the housing market is showing signs of stabilisation. Companies exposed to the housing market have had a torrid time and a recovery in housing demand from very depressed levels could see profits move strongly ahead. To this end we added positions in Persimmon and Taylor Wimpey, both UK housebuilders, whilst increasing our holding in LSL Property Services, the estate agent.

Other new additions to our portfolio included:

CareTech – provides residential care services for adults with learning disabilities, physical disabilities, mental health problems and autism. Since its IPO (initial public offering) in 2005 the company has established a flawless growth record through organic bed development supplemented by sensible acquisitions. CareTech still has a small share of what is a very fragmented market and there appears to be plenty of opportunity for future growth.

Debenhams – the department store retailer has struggled since its IPO in 2006, not because operationally it has underperformed, but because it was saddled with too high a debt burden from its former private equity owner. We initiated a holding in early 2009 as we felt the valuation had reached a level that more than reflected the balance sheet concerns. Strong trading, which has outperformed the retail sector, and a recent fund raising has restored the company credibility and the share price has risen accordingly.

Heritage Oil – an oil exploration business with interests in Uganda and Kurdistan. In both areas Heritage has been extremely successful with the drillbit and has discovered significant oil reserves. Recently Heritage has announced a potential merger with Genel, a large Turkish oil company, which would significantly boost Heritage's operations in Kurdistan and propel the combined company into the FTSE100.

Kentz – provides engineering services to the oil, gas, petrochemical and power industries. The company has a strong reputation for engineering excellence and safety and has a very strong position in the Middle East. With a large and secure order book and significant net cash reserves, Kentz is well placed to grow in the coming years.

To balance the additions to our portfolio we have disposed of positions in companies which we felt were set for poor price performance. In particular, sales were made where we felt the business had become over borrowed and trading remained difficult, such as UTV Media, the TV and radio broadcasting company, and DTZ, the property agent. We also disposed of our holding in Robert Walters, the recruitment consultant, where we believe prospects are poor given the decline in economic activity and the lack of new jobs being created by the banking industry.

After a number of years of strong IPO and takeover activity, the year under review has been relatively quiet. Given the economic backdrop, poor equity market conditions and the lack of bank finance available, this lack of activity is hardly surprising. The only notable bid we had in the portfolio was Imperial Energy, which was taken over by ONGC, the Indian oil company. We did not participate in any IPOs in the year.

Market outlook

The last year has been a difficult one for world economies and equity markets. More recently there have been encouraging signs that the world economy is stabilising. Recent economic data are pointing to a situation that, if not getting better, is at least not getting worse. Equity markets have rebounded from the lows of March. Banking markets are returning to some form of normality and credit is becoming available again, albeit that banks are charging significantly more for their services.

In the UK, although economic conditions remain difficult, the UK consumer has remained remarkably resilient, helped specifically by lower mortgage costs. The UK housing market is showing definite signs of life, with mortgage approvals and housing transactions picking up and house prices stabilising.

Corporate earnings remain under pressure as global demand remains weak, with cost cutting the primary method of maintaining profitability. However, earnings downgrades, which were particularly savage in early 2009, have eased recently. Even with the downgrades in earnings that we have seen, equity valuations are cheap. Earnings multiples are well below long term averages and offer substantial upside when the economy recovers.

Fund Manager's Review

continued

However, a smooth path to economic recovery is not guaranteed. Unemployment is likely to continue to rise well into 2010, putting pressure on a UK consumer who is likely to be suffering from rising taxation and potentially higher mortgage costs. It is also acknowledged that government debt levels and spending are unsustainable and need to be cut. Whatever the shape of the new government, public spending is likely to be under severe pressure.

In conclusion, the year under review has been a difficult one for the equity market and even more for the Trust. Performance has been disappointing and our portfolio has not held up as well as we expected in these difficult economic times. An improvement is an absolute priority for the coming year and we are confident this can be achieved.

Our investments are generally trading well, are soundly financed and attractively valued. Additionally the small cap market continues to throw up exciting growth opportunities into which the Trust can invest. Whilst it is right to be cautious over short term prospects I am optimistic on a medium term view.

Neil Hermon
Fund Manager
30 July 2009

Investment Portfolio

at 31 May 2009

	Valuation as at 31 May 2009 £'000	**% of portfolio**
Informa	6,286	3.61
WS Atkins	5,180	2.97
WSP	4,708	2.70
Bellway	4,583	2.63
Carillion	4,123	2.37
Balfour Beatty	4,074	2.34
Spectris	3,844	2.21
Premier Oil	3,635	2.09
Domino Printing	3,285	1.88
Interserve	3,141	1.80
10 largest	42,859	24.60
Victrex	3,138	1.80
Croda	2,843	1.63
Costain	2,668	1.53
Fidessa	2,556	1.47
Intermediate Capital	2,525	1.45
Rotork	2,479	1.42
Chemring	2,408	1.38
Ultra Electronic	2,365	1.36
Anite	2,327	1.34
VT Group	2,322	1.33
20 largest	68,490	39.31
Restaurant Group	2,227	1.28
Heritage Oil	2,208	1.27
Greene King	2,190	1.26
BSS Group	2,152	1.23
Mouchel Parkman	2,110	1.21
Paragon	2,067	1.19
Charter	2,061	1.18
International Ferro Metals	1,951	1.12
*RWS Holdings	1,938	1.11
Keller Group	1,875	1.08
30 largest	89,269	51.24
Laird	1,872	1.08
Big Yellow	1,869	1.07
CSR	1,831	1.05
Melrose	1,825	1.05
EAGA	1,782	1.02
Shaftesbury	1,767	1.01
*Playtech	1,764	1.01
Phoenix	1,743	1.00
SIG	1,696	0.97
Persimmon	1,638	0.94
40 largest	107,056	61.44

Investment Portfolio

at 31 May 2009 continued

	Valuation as at 31 May 2009 £'000	% of portfolio
Synergy Healthcare	1,620	0.93
Halfords	1,618	0.93
Taylor Wimpey	1,605	0.92
William Hill	1,583	0.91
Babcock International	1,479	0.85
Aveva Group	1,470	0.84
Savills	1,455	0.84
Bluebay Asset Management	1,379	0.79
Chloride	1,370	0.79
NCC Group	1,365	0.78
50 largest	122,000	70.02
Grainger	1,353	0.78
Talvivaara Mining	1,334	0.77
Southern Cross Healthcare	1,297	0.74
Telecity Group	1,220	0.70
LSL Property Services	1,210	0.70
Care UK	1,207	0.69
Debenhams	1,199	0.69
Pace	1,169	0.67
Oxford Instruments	1,136	0.65
Northgate	1,136	0.65
60 largest	134,261	77.06
ITE Group	1,080	0.62
*Valiant Petroleum	1,079	0.62
Topps Tiles	1,071	0.62
Headlam	1,071	0.62
Aberdeen Asset Management	1,069	0.61
Rathbone Brothers	1,054	0.61
Bovis Homes Group	1,050	0.60
Renishaw	1,015	0.58
Derwent London	1,012	0.58
*Shed Media	1,009	0.58
70 largest	144,771	83.10
Venture Production	1,001	0.57
Meggitt	999	0.57
Chime Communications	990	0.57
John Wood	986	0.56
Psion	935	0.54
Euromoney Institutional Investor	925	0.53
Consort Medical	925	0.53
Forth Ports	916	0.52
e2v technologies	900	0.52
*Hansteen Holdings	889	0.51
80 largest	154,237	88.52

	Valuation as at 31 May 2009 £'000	% of portfolio
RM	870	0.50
Senior	864	0.50
Morgan Sindall	858	0.49
*Kentz	841	0.48
*Goals Soccer Centres	792	0.45
Wellstream Holdings	784	0.45
Tribal	776	0.45
Ted Baker	763	0.44
Hansard	751	0.43
*CareTech Holdings	732	0.42
90 largest	162,268	93.13
Hochschild Mining	720	0.42
*Majestic Wine	703	0.40
GlobeOp Financial Services	691	0.40
Hampson Industries	680	0.39
Gem Diamonds	669	0.39
Chrysalis Group	650	0.38
*The Clapham House Group	616	0.36
*CVS Group	588	0.32
*Just Retirement	548	0.31
Ricardo	548	0.31
100 largest	168,681	96.81
*Next Fifteen Communications Group	539	0.31
*Proximagen Neuroscience	525	0.30
Capital & Regional	507	0.29
*Carluccio's	506	0.29
Kofax	470	0.27
Speedy Hire	445	0.26
*Powerleague	438	0.25
*Numis Corporation	422	0.24
*ACP Capital	380	0.22
*Augean	370	0.21
110 largest	173,283	99.45
*Abcam	332	0.19
*Falkland Oil and Gas	251	0.14
Intec Telecom Systems	167	0.10
#Langbar International	119	0.07
Raymarine	80	0.05
TOTAL	**174,232**	**100.00**

There were no convertible or fixed interest securities at either 31 May 2009 or 31 May 2008.

*quoted on the Alternative Investment Market

#unquoted

Directors' Report

The directors present the audited financial statements of the Group and their report for the year ended 31 May 2009.

Activities and business review

A review of the business is given in the Chairman's Statement on page 3, in the Fund Manager's Review on pages 4 to 6 and in the business review below.

Status

The Henderson Smaller Companies Investment Trust plc ("the Company") is incorporated in England and Wales and domiciled in the United Kingdom. It is an investment company as defined in section 833 of the Companies Act 2006 and operates as an investment trust in accordance with section 842 of the Income and Corporation Taxes Act 1988. HM Revenue & Customs approval of the Company's status as an investment trust has been received in respect of the year ended 31 May 2008, although approval for that year is subject to review should there be any subsequent enquiry under Corporation Tax Self Assessment. The Company will continue to seek approval under section 842 of the Income and Corporation Taxes Act 1988 each year.

ISAs

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

Life of the Company

The Board announced on 27 September 2002 that it proposed to introduce regular continuation votes for the Company. Accordingly, a continuation vote was put to the annual general meeting of the Company in September 2004 and a similar resolution was put to the annual general meeting in September 2007. Thereafter in 2010, and at every subsequent third annual general meeting, an ordinary resolution will be put asking the shareholders to approve the continuation of the Company as an investment trust.

In the event of the shareholders in general meeting voting against the continuation of the Company, the directors would expect to convene a further general meeting, as soon as practicable, at which proposals to liquidate, reorganise or reconstruct the Company would be put forward.

A statement on going concern is set out on page 23.

Business review

This section of the directors' report provides a review of the Group's business and describes the principal risks and uncertainties facing the Group. The Group comprises The Henderson Smaller Companies Investment Trust plc ("the Company") and its wholly owned subsidiary undertaking, Henderson Smaller Companies Finance Limited ("the Subsidiary").

Investment objective

The Company's investment objective is to maximise shareholders' total returns by investing mainly in smaller companies that are quoted in the United Kingdom. The strategy is to use rigorous research to identify high-quality smaller companies with strong growth potential. Generally, new investments are made in constituents of the benchmark index but they may continue to be held when the underlying companies grow out of the smaller companies sector. The benchmark is the Hoare Govett Smaller Companies Index (excluding investment companies).

Investment policy

The Company's portfolio is managed within a framework of investment limits and restrictions determined by the Board, the primary purpose of which is to spread and mitigate investment risk. It is intended that the Company will continue to be managed so as to satisfy each year the conditions for approval by HM Revenue & Customs as an investment trust.

Diversification

The Company maintains a diversified portfolio, of which the details on pages 4, 6 and 7 provide illustration. The portfolio is actively managed by the Manager, which provides regular reports on investment activity and portfolio construction to the directors at and between Board meetings.

The Company will not invest more than 5 per cent of its total gross assets, calculated as at the time of investment (or additional investment), in any one holding. The Company will not make any investment that, calculated at the time of investment (or additional investment), would result in it holding more than 10 per cent of an investee company's equity. The Board may give approval to the Manager to

Directors' Report
continued

exceed these limits to as far as 10 per cent and 20 per cent respectively but only in exceptional circumstances.

Asset Allocation
Generally, the Company will invest in smaller companies that are quoted in the United Kingdom. Investments may include shares, securities and related financial instruments, including derivatives.

Gearing
The Company will borrow money for investment purposes if the Board considers it appropriate. Net borrowings are limited to a maximum of 30 per cent of the value of the shareholders' funds.

General
In accordance with the Listing Rules of the UK Listing Authority, the Company will not invest more than 15 per cent of its gross assets in the shares of other listed closed-ended investment funds, including investment trusts, and will not invest more than 10 per cent of its gross assets in companies that themselves may invest more than 15 per cent of their gross assets in listed closed-ended investment funds.

Principal activity
The principal activity of the Company is to pursue its objective by operating as an investment trust company. The investment trust company structure allows the shareholders, whether institutions or private investors, to access a diversified portfolio of investments that is professionally managed. The principal activity remained unchanged throughout the year ended 31 May 2009.

Strategy
The Company has appointed Henderson Global Investors Limited ("Henderson") to manage the investments and to provide the related administrative services. Henderson provides a specialist fund manager whose role is to pursue the Company's objective within parameters determined by the Board. These parameters reflect investment policy and the Board's assessment of the risks facing the Company, including the importance of retaining the Company's taxation status as an investment trust. As an investment company the Company invests its shareholders' funds in the securities of other companies. In addition it has the ability to borrow money (termed "gearing") in order to increase the funds available for investment. It does this by means of both fixed borrowings (its £20 million issue of 10½ per cent debenture stock, repayable in 2016) and short term borrowings (drawn down from a facility provided by ING Bank N.V., London Branch with a current capacity of £5 million). In the event that the investment outlook becomes unfavourable, the Company may reduce its gearing to nil. However, it would expect the shareholders' funds to remain invested in all but unusual circumstances.

Risks and uncertainties
The principal risks and uncertainties facing the Company relate to the activity of investing in the shares of smaller companies that are listed (or quoted) in the United Kingdom. Although the Company invests almost entirely in securities that are quoted on recognised markets, share prices may move rapidly and it may not be possible to realise an investment at the Manager's assessment of its value. The companies in which investments are made may operate unsuccessfully, or fail entirely, such that shareholder value is lost. The Company is also exposed to the operational risk that one or more of its suppliers may not provide the required level of service. The Board considers regularly the principal risks facing the Company in order to mitigate them as far as practicable.

A fuller description of the principal risks and uncertainties is given on pages 12 and 13.

Capital
At 31 May 2009 the Company had in issue 77,370,296 ordinary shares of 25p each. The market price per share at that date was 167.0p, giving the Company a market capitalisation of £129.2 million. Equity shareholders' funds totalled £156.3 million, the net asset value being 202.1p per share. Accordingly, the market price per share stood at a discount of 17.4% to the net asset value. The Company seeks annually shareholder authority to buy back its shares in the market for cancellation. During the year the Company bought back 3,078,734 of its ordinary shares, representing 3.8% of the ordinary shares in issue at 31 May 2008. These purchases were made at an average discount of 27.2%; they cost £5.7 million excluding stamp duty and were funded from the realised capital reserves.

Performance
The Company had a poor year in terms of both absolute and relative performance. The stock market fell over the year and, because of poor stock selection and, to a lesser degree, its

Directors' Report

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gearing, the Company underperformed its benchmark, the Hoare Govett Smaller Companies Index (excluding investment companies) on a total return basis. The following table sets out, with comparatives, key indicators of performance:

	At 31 May 2009	At 31 May 2008	% change
Shareholders' funds	**£156,349,000**	£255,471,000	-38.8
Net asset value per share	**202.1p**	317.6p	-36.4
Market price per share	**167.0p**	252.0p	-33.7
	Year ended 31 May 2009	Year ended 31 May 2008	% change
Revenue return per share	**6.30p**	4.64p	
Capital return per share	**(121.71)p**	(83.96)p	
Total return per share	**(115.41)p**	(79.32)p	
Dividend per share	**3.00p**	2.20p	+36.4
Special dividend per share	**2.60p**	1.60p	

On a total return basis the benchmark index returned a negative 19.5% over the year ended 31 May 2009. By comparison the Company's net asset value total return was a negative 35.5%.

Performance attribution

	Note	**Year ended 31 May 2009**
Net asset value per share total return		(35.5)
Benchmark total return	1	(19.5)
Relative performance		**(16.0)**
Made up:		
Stock selection		(13.0)
Gearing		(5.0)
Share buy-backs		1.2
Expenses		(0.7)
Write-back of VAT and related interest		1.5
		(16.0)

Notes:

1. The benchmark is the Hoare Govett Smaller Companies Index (excluding investment companies).
2. Source: Henderson Global Investors Limited. The table sets out the Manager's understanding of the movement, relative to the benchmark, between the net asset value per share at 31 May 2008 (317.6p) and the net asset value per share at 31 May 2009 (202.1p).

Assets

The Group's net assets decreased during the year from £255.5 million to £156.3 million. The net asset value per ordinary share decreased during the year from 317.6p to 202.1p. The main reason for this decrease was the fall in the market value of the Company's investments.

The Company has no employees and no premises or physical assets of its own.

Costs

The Company's most significant items of expenditure are the costs of borrowing money for investment (the costs of gearing) and the management and, if applicable, performance fees payable to the Manager. Other expenses include investment transaction costs, the directors' fees and insurance, the fees of professional advisers and regulators, marketing, and the production and issue of reports to shareholders. In the year under review borrowing costs totalled £2,376,000, the management fee totalled £687,000 and other expenses totalled £360,000. These figures include VAT where applicable. No performance fee is payable because the Company underperformed its benchmark index (and both the net asset value per share and the market price per share were lower at the end of the year than at the start of the year). During the year a further amount of £1,150,000 was recognised as recoverable in respect of VAT borne on investment management fees in past years; this amount has been accounted for as a negative expense. The transaction costs, which include stamp duty and totalled £181,000, are included within the purchase costs or netted against the sales proceeds of investments.

The total expense ratio ("TER") is a measure of the Company's running costs. The definition used for the figures below is "the total of the management fees and other administrative expenses as a percentage of the average of shareholders' funds at the beginning and end of the year". This definition excludes borrowing costs and transaction costs (and, in respect of the year under review, the write back of VAT) but includes any performance fee. For the year ended 31 May 2009 the TER is 0.51% (2008: 0.51%).

Revenue and dividend

The Company's investment income and other revenue totalled £7,218,000 (2008: £7,194,000). After deducting expenses the revenue profit for the year was £4,936,000 (2008: £3,868,000).

The Board seeks to increase each year the dividend per ordinary share that it puts to the shareholders for approval. The amount available for distribution represents the investment income of the Company less all borrowing costs, management

Directors' Report

continued

fees and administrative expenses (except the performance fee). The difference between the totals of income and expenditure may vary from year to year because the Company's most significant costs are not related at all closely to the investment income. Accordingly, it is not possible to be certain that a progressive dividend policy can be maintained.

In respect of the year under review the directors recommend a final dividend of 3.00p per ordinary share (2008: 2.20p). Subject to approval at the Annual General Meeting, the final dividend will be paid on 9 October 2009 to shareholders on the register of members on 11 September 2009.

In addition, to reflect the further but exceptional benefit of the write-back of VAT, the directors recommend a special dividend of 2.60p, to be paid, subject to approval at the Annual General Meeting, with, and to the same timetable as, the final dividend.

Future developments

The future success of the Company is dependent primarily on the performance of its investments, which will to a significant degree reflect the performance of the stock market. Although the Company invests in companies that are listed or quoted in the United Kingdom, the underlying businesses of those companies are affected by many economic factors, many of an international nature. The Board's intention is that the Company will continue to pursue its investment objective in accordance with its investment policy. Further comment on the outlook for the Company is given in the Chairman's Statement and in the Fund Manager's Review.

Directors

The directors of the Company, as shown on page 2, are Mrs S M Davis, Mr J D Fishburn, Mr J J Nelson, Mr K E Percy and Ms M A Sieghart. All served throughout the year under review, with the exception of Ms Sieghart who was appointed on 18 July 2008. Mr J M P Taylor also served as a director until his retirement at the Annual General Meeting on 26 September 2008.

The Board may appoint directors to the Board without shareholder approval. Any director so appointed must stand for reappointment by the shareholders at the next Annual General Meeting in accordance with the Articles of Association. The total number of directors shall not be less than two nor more than fifteen.

In addition, under the Articles of Association, shareholders may remove a director before the end of his term by passing a special resolution at a general meeting of the Company. A special resolution is passed if more than 75% of the votes cast, in person or by proxy, are in favour of the resolution.

In accordance with the Company's Articles of Association, Mr Fishburn and Mr Percy will retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election. The Board considers that both directors should be re-elected because they bring wide, current and relevant business experience that allows them to contribute effectively to the leadership of the Company.

No director has, or during the financial year had, a contract of service with the Company. No director is or was materially interested in any contract subsisting during or at the end of the year that was significant in relation to the Company's business.

The directors have reviewed their independence in the context of the Combined Code and by reference to the AIC's Code of Corporate Governance. The directors have had no material connections with Henderson at all, other than as directors of the Company. The Board is of the opinion that each of the directors is independent in character and judgement and that there are no relationships or circumstances that are likely to affect their judgement. Mr Fishburn has served on the Board for more than nine years and will therefore stand for election by the shareholders each year. The Board is firmly of the view, however, that length of service does not of itself impair a director's ability to act independently. Rather, a long-serving director can offer a perspective that adds value to the deliberations of a well-balanced investment trust company board. As such, the Board considers Mr Fishburn to be independent but, in accordance with the Combined Code, his role and contribution will be subject to particularly rigorous review every year.

The number of full meetings during the year of the Board and its Committees, and the attendance of individual directors at those meetings, is shown overleaf.

Directors' Report
continued

	Board	Audit Committee
Number of meetings	5	3
J D Fishburn	5	3*
S M Davis	5	3
J J Nelson	4 of 5	3
K E Percy	4 of 5	2 of 3
M A Sieghart	5	3
J M P Taylor	1 of 2	–

With the exception of Mr Nelson, all the above directors attended the Annual General Meeting.

*Mr Fishburn stood down from the Audit Committee in 2007 but has attended its meetings by invitation.

Directors' fees

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

Directors' indemnity

Directors' and officers' liability insurance cover is in place in respect of the directors. The Company's Articles of Association provide, subject to the provisions of UK legislation, an indemnity out of the assets of the Company for every director or other officer of the Company against any liability which he or she may incur as a director or other officer of the Company in defending any proceedings (whether civil or criminal) in which judgement is given in his or her favour, or he or she is acquitted, or in connection with any application under the Companies Acts in which he or she is granted relief by the court.

Directors' interests

The interests of the directors, at the end of the financial year and at the beginning of it, in the ordinary shares of the Company were as shown below:

	31 May 2009 Ordinary shares of 25p	1 June 2008 Ordinary shares of 25p
With beneficial interest:		
S M Davis	**10,894**	10,672
J D Fishburn	**17,550**	16,050
J J Nelson	**45,000**	45,000
K E Percy	**4,000**	2,700
M A Sieghart	**500**	–†

†at 18 July 2008, the date of appointment.

No director had an interest in the preference or debenture stocks of the Company. There were no changes in the directors' interests between the year end and 29 July 2009.

Corporate governance

A formal statement on corporate governance is set out on pages 20 to 23.

Financial instruments and the management of risk

By its nature as an investment trust, the Company is exposed in varying degrees to market risk, market price risk, currency risk, interest rate risk, liquidity risk and credit risk. The Company's policies for managing these risks are outlined below and in note 16 to the financial statements on pages 41 to 44.

Principal risks and uncertainties

With the assistance of the Manager the Board has drawn up a risk matrix which identifies the key risks to the Company. These key risks fall broadly under the following categories:

Investment activity and strategy

An inappropriate investment strategy (for example, in terms of asset allocation or the level of gearing) may lead to underperformance against the Company's benchmark index and the companies in its peer group; it may also result in the Company's shares trading on a wider discount. The Board manages these risks by ensuring a diversification of investments and a regular review of the extent of borrowings. The Manager operates in accordance with investment limits and restrictions determined by the Board; these include limits on the extent to which borrowings may be used. The Board reviews its investment limits and restrictions regularly and the Manager confirms its compliance with them each month. The Manager provides the directors with management information, including performance data and reports and shareholder analyses. The Board monitors the implementation and results of the investment process with the Fund Manager, who attends all Board meetings, and reviews regularly data that monitors risk factors in respect of the portfolio. The Board reviews investment strategy at each Board meeting.

Portfolio and market

Market risk arises from uncertainty about the future prices of the Company's investments. This is commented on in note 16 on pages 41 to 44.

Directors' Report
continued

Accounting, legal and regulatory
In order to qualify as an investment trust the Company must comply with section 842 of the Income and Corporation Taxes Act 1988 ("section 842"), to which reference is made on page 8 under the heading 'Status'. A breach of section 842 could result in the Company losing investment trust status and, as a consequence, capital gains realised within the Company's portfolio would be subject to Corporation Tax. The section 842 criteria are monitored by the Manager and the results are reported to the directors at each Board meeting. The Company must comply with the provisions of the Companies Act 1985, and the Companies Act 2006 as it becomes enacted ("the Companies Acts"), and, as the Company's shares are listed for trading on the London Stock Exchange, the Company must comply with the UK Listing Authority's Listing Rules and Disclosure Rules ("UKLA Rules"). A breach of the Companies Acts could result in the Company and/or the directors being fined or becoming the subject of criminal proceedings. Breach of the UKLA Rules could result in the suspension of the Company's shares which would in turn lead to a breach of section 842. The Board relies on its company secretary and its professional advisers to ensure compliance with the Companies Acts and UKLA Rules.

Corporate governance and shareholder relations
Details of the Company's compliance with corporate governance best practice, including information on relations with shareholders, are set out in the Corporate Governance Statement on pages 20 to 23.

Operational
Disruption to, or failure of, the Manager's accounting, dealing or payment systems or the Custodian's records could prevent the accurate reporting and monitoring of the Company's financial position. The Manager has contracted some of its operational functions, principally those relating to trade processing, investment administration and accounting, to BNP Paribas Securities Services SA. Details of how the Board monitors the services provided by the Manager and its other suppliers, and the key elements designed to provide effective internal control, are explained further in the internal control section of the Corporate Governance Statement on page 23.

Financial
The directors have reviewed the Manager's statements on the risks associated with the Company and concur with their opinion on these risks. Further analysis of these risks can be found in note 16 on pages 41 to 44.

Manager
Investment management, accounting, administrative and company secretarial services are provided to the Company (and were provided during the year under review) by subsidiaries of Henderson Global Investors (Holdings) plc ("Henderson"), BNP Paribas Securities Services SA (formerly its subsidiary company, BNP Paribas Fund Services UK Limited) provides, on behalf of Henderson, accounting and investment administration services to the Company.

The management agreement between the Company and Henderson provides for the payment of a composite annual management fee, calculated as a percentage of the value of the assets under management. The management fee is calculated quarterly as a percentage of the value of the assets under management on the last day of the quarter preceding the quarter in respect of which the calculation is made. Assets under management for the purpose of calculating the management fee exclude any holdings in funds managed by Henderson. The management fee is payable quarterly in advance. During the year ended 31 May 2009 the percentage fee rate was 0.0875 per cent per quarter (0.35 per cent per annum).

In addition, the management agreement provides for the payment of a performance fee, calculated as 15 per cent of any outperformance of the benchmark index, on a total return basis, over the Company's accounting year. This is subject to a limit on the total management fees payable in any one year of 1.0 per cent of the average value of the net assets of the Company during the year (calculated monthly) and an absolute limit to the performance fee of £2 million in any one year. There is a further cap to the effect that any enhancement to net asset value resulting from share buy-backs in excess of 5 per cent of the opening issued share capital is excluded from the calculation of the performance fee for the year. No performance fee is payable if on the last day of the Company's accounting year the Company's share price is lower than the share price as at the preceding year end. If on the last day of the Company's accounting year the net asset value per share, calculated, in accordance with the Company's accounting policies, net of costs (including any performance fee), is equal to or lower than the

Directors' Report
continued

net asset value per share as at the preceding year end, the performance fee payable will be restricted to such amount, if any, as will result in the net asset value per share being higher than the net asset value per share at the preceding year end. Any underperformance relative to the benchmark, or any unrewarded outperformance (for example as a result of a cap), will be carried forward and set against any outperformance or underperformance respectively in subsequent years. The net amount of outperformance or underperformance carried forward is termed the Historic Amount.

No performance fee is payable in respect of the year ended 31 May 2009 because the Company underperformed the benchmark index (and also because the Company's share price and net asset value per share were lower than at the end of the preceding year). The Historic Amount brought forward at 1 June 2008 amounted to £13,272,000. The Historic Amount carried forward at 31 May 2009 amounted to a deficit of £26,661,000.

The management agreement provides for a formal review every three years of the fee arrangements with the Manager. In July 2008 the Board and Henderson concluded the triennial review due as at 31 May 2008. Certain changes to the performance fee arrangements were agreed between the parties but withdrawn following meetings with some of the larger shareholders.

The notice period under the management agreement between Henderson and the Company is six months, the amount of any compensation payable by the Company to be pro rata to any notice given. No compensation is payable if six months' notice of termination is given. In the event that the continuation vote to be put to the annual general meeting in 2010, or a continuation vote put to a subsequent annual general meeting, is not passed, no compensation will be payable on the subsequent termination of the contract.

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

Independent auditors

Resolutions to reappoint PricewaterhouseCoopers LLP as auditors to the Company, and to authorise the directors to determine their remuneration, will be proposed at the forthcoming Annual General Meeting.

Directors' statement as to the disclosure of information to the auditors

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

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

Donations

During the year the Company made charitable donations of £5,000 (2008: £5,000). No political donations were made (2008: £nil).

The payment of creditors

It remains the Company's policy for the forthcoming financial year to obtain the best terms for all business and therefore there is no single policy as to the terms used. In general the Company agrees with its suppliers the terms on which business will take place and it is the Company's policy to abide by such terms. There were no trade creditors at 31 May 2009 (2008: none).

Share capital

The Company's share capital comprises:

a) *ordinary shares of 25p nominal value each ("shares")*
The voting rights of the shares on a poll are one vote for each share held. At 31 May 2008 there were 80,449,030 shares in issue. During the year 3,078,734 shares (representing 3.8% of the number in issue at the beginning of the year) were bought back and cancelled. At 31 May 2009 the number of shares in issue, and thus the number of voting rights, was 77,370,296.

Directors' Report
continued

b) *preference stock units of £1 each ("preference stock units")* The preference stockholders have no rights to attend and vote at general meetings (except where the dividend is six months in arrears or on a resolution to wind up the Company). At 31 May 2008 there were 4,257 preference stock units in issue. No preference stock units were bought back during the year. Therefore, at 31 May 2009 the number of preference stock units in issue was 4,257.

Further details on the preference stock units are given in note 15 on pages 40 and 41.

Since 31 May 2009, and up to the date of this document, a further 2,200,000 shares have been bought back for cancellation. There have been no other changes to the share capital or voting rights of the Company.

There are no restrictions on the transfer of the Company's share capital and there are no shares or stock which carry specific rights with regards to control of the Company.

Substantial share interests

As at 29 July 2009 the following had declared an interest in 3% or more of the voting rights of the Company:

Shareholder	% of voting rights
M & G Investment Management Limited (direct)	11.44
Newton Investment Management Limited (indirect)	10.47
The Standard Life Investments Group (direct)	6.99
Royal London Asset Management Limited (direct)	6.93
East Riding of Yorkshire Council (direct)	6.25
1607 Capital Partners LLC (category not stated)	5.76
Legal & General Investment Management Limited (direct)	4.71

The above percentages are calculated by applying the shareholdings as notified to the Company to the issued share capital as at 29 July 2009 (the shareholdings being the voting rights).

The Board is aware that, as at 31 May 2009, 3.53% of the issued share capital was held on behalf of participants in the Halifax Share Dealing Products (run by Halifax Share Dealing Limited ('HSDL') which is now part of Lloyds Banking Group) who transferred from Henderson's products or who have subsequently been introduced via Henderson. In accordance with the arrangements made between HSDL and Henderson Global Investors Limited ('Henderson'), these participants in the Halifax Share Dealing Products are given the opportunity to instruct the nominee company of HSDL to exercise the voting rights appertaining to their shares in respect of all general meetings of the Company. HSDL has undertaken to instruct its nominee company to exercise the voting rights of any such shares held through the Halifax Share Dealing Products that have not been exercised by the individual participants in them. It 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.

Annual General Meeting ("AGM")

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

The AGM will be held on Friday 2 October 2009 at 11.30 am. The formal notice of the AGM is set out on pages 48 to 50. Resolutions relating to the following items of special business will be proposed at the AGM, for which shareholder approval is required in order to comply with the Companies Acts.

Preference stock

Resolution 9 – Authority to make market purchases of the Company's own preference stock (special resolution)

In a circular to shareholders and preference stockholders dated 24 February 1999, the Company proposed to offer to purchase for cancellation all the Company's outstanding preference

Directors' Report

continued

stock at £1 per unit, being the par value of the preference stock units. At an extraordinary general meeting of the Company held on 22 March 1999 these proposals, together with the related changes to the Articles of Association, were approved. At 31 May 2009 acceptances had been received in respect of £870,743 of the stock, leaving £4,257 in issue. It is intended that the offer will remain open until such time as all the preference stock has been acquired and, accordingly, a resolution will be put to the forthcoming Annual General Meeting to renew the Company's powers to repurchase it.

Share buy-back facility

Resolution 10 – Authority to make market purchases of the Company's own ordinary shares (special resolution)

The Company's Articles of Association permit the Company to purchase its own shares and to fund such purchases from its accumulated realised capital reserves.

At the Annual General Meeting in September 2008 a special resolution was passed giving the Company authority, until the conclusion of the Annual General Meeting in 2009, to make market purchases for cancellation of the Company's own ordinary shares up to a maximum of 11,751,717 shares (being 14.99% of the issued ordinary share capital as at 26 September 2008). As at 31 May 2009 the Company had valid authority, outstanding until the conclusion of the Annual General Meeting in 2009, to make market purchases for cancellation of 10,724,967 shares. Since the year end a total of 2,200,000 shares have been bought back.

The Board considers that the Company should continue to have authority to make market purchases of its own ordinary shares for cancellation. Accordingly, a special resolution will be proposed at the forthcoming Annual General Meeting to authorise the Company to make market purchases for cancellation of up to 14.99% of the ordinary shares in issue at the date of the Annual General Meeting (equivalent to 11,268,027 ordinary shares (with a nominal value of £2,817,006) if there is no change in the issued ordinary share capital between the date of this report and the Annual General Meeting). Under the Listing Rules of the UK Listing Authority, this is the maximum percentage of its equity share capital that a company may purchase through the market pursuant to such authority.

The directors believe that buying back the Company's own shares in the market, at appropriate times and prices, is in the best interests of shareholders generally. The Company will make purchases within guidelines set from time to time by the Board and if or when market conditions are suitable, with the aim of maximising the benefit to the remaining shareholders. The directors will not use this authority unless to do so would result in an increase in the net asset value per ordinary share. Shares will not be bought back at a price that is less than 25p (the nominal value) or more than 5 per cent above the average middle market price of the shares over the preceding five business days. The directors intend to seek a fresh authority at the annual general meeting in 2010.

Recommendation

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

By order of the Board
G S Rice
For and on behalf of Henderson Secretarial Services Limited, Secretary
30 July 2009

Statement of Directors' Responsibilities

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

The directors are responsible for preparing the Annual Report, 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 elected to prepare the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis.

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 the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group 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 2 confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and loss of the Group; and
- the directors' report in this Annual Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

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

For and on behalf of the Board
J D Fishburn
Chairman
30 July 2009

Directors' Remuneration Report

Introduction

The Directors' Remuneration Report ("the Report") is prepared in accordance with the Companies Act 2006 ("the Act") in respect of the year ended 31 May 2009. An ordinary resolution to receive and approve the Report will be put to the Annual General Meeting on 2 October 2009. The Act requires the auditors to report to the Company's members on certain parts of the Report and to state whether in their opinion those parts of the Report have been properly prepared in accordance with the Act. Therefore the Report has been divided into separate sections for audited and unaudited information.

UNAUDITED INFORMATION

Consideration by the directors of matters relating to directors' remuneration

The Board as a whole considered the directors' remuneration. Therefore the Board has not appointed a committee to consider matters relating to the directors' remuneration. The Board has not been provided with advice or services by any person in respect of its consideration of the directors' remuneration (although the directors expect from time to time to review the fees paid to the boards of directors of other investment trust companies).

Statement of the Company's policy on directors' remuneration

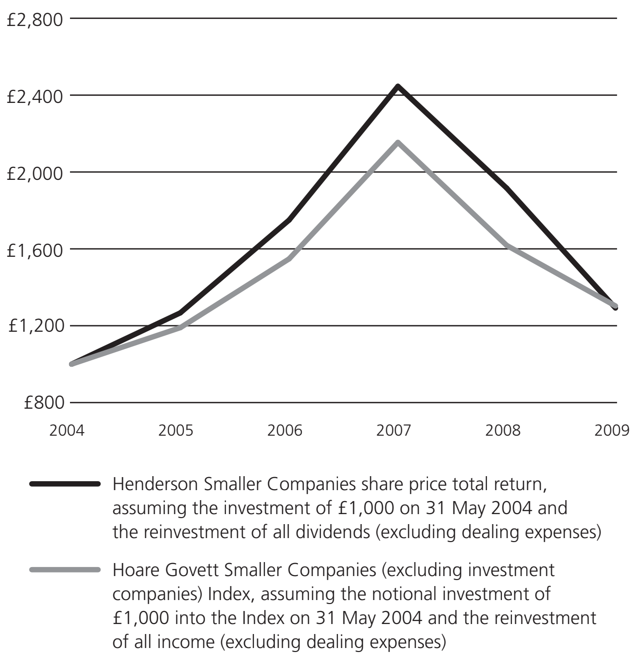
The Board consists entirely of non-executive directors who meet at least five times a year to deal with the important aspects of the Company's affairs. New directors are appointed with the expectation that they will serve for a period of three years. Directors' appointments are reviewed formally every three years thereafter by the Board as a whole. None of the directors has a contract of service or a contract for services and a director may resign by notice in writing to the Board at any time; there are no set notice periods. The Company's policy is for the directors to be remunerated in the form of fees, payable quarterly in arrears, to the director personally or to a third party specified by him or her. The directors have undertaken to use a proportion of their fees to purchase shares in the Company. There are no long term incentive schemes and the fees are not specifically related to the directors' performance, either individually or collectively.

The Company's policy is that the fees payable to the directors should reflect the time spent by the Board on the Company's affairs and the responsibilities borne by the directors and should be sufficient to enable candidates of high calibre to be recruited. The policy is for the Chairman of the Board and the Chairman of the Board's Audit Committee to be paid higher fees than the other directors in recognition of their more onerous roles.

The Company's articles of association limit the fees payable to the directors to £150,000 per annum. The directors' fees are payable as follows: the Chairman £27,500 per annum, the Chairman of the Audit Committee £17,000 per annum and the other directors £16,000 per annum. The policy is to review the fee rates from time to time, although such review will not necessarily result in any change to them. The fees were last increased with effect from 1 January 2006.

Directors' and officers' liability insurance cover is held by the Company in respect of the directors.

Performance graph

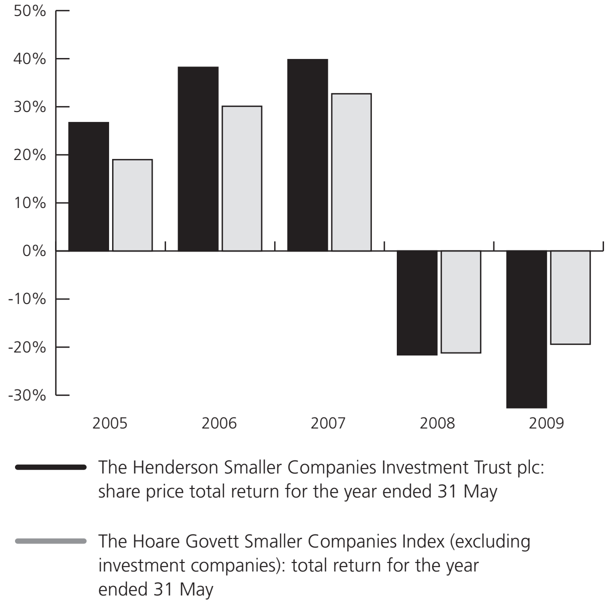


(Source: Datastream).

The Hoare Govett Smaller Companies (excluding investment companies) Index is selected here because it was the Company's benchmark for the five year period covered by the graph.

Directors' Remuneration Report
continued

The information given in the graph on page 18, which is set out in the format required by the Act, may be more readily understood in the form of a bar chart.



AUDITED INFORMATION

Amount of each director's emoluments

The fees payable in respect of each of the directors who served during the year, and during 2008, were as follows:

	2009 £	2008 £
S M Davis	**17,000**	17,000
J D Fishburn	**27,500**	27,500
J J Nelson	**16,000**	16,000
K E Percy	**16,000**	16,000
M A Sieghart[(i)]	**12,288**	–
J M P Taylor[(ii)]	**6,826**	16,000
TOTAL	**95,614**	92,500

Notes:
(i) Ms Sieghart was appointed to the Board on 18 July 2008.
(ii) Mr Taylor retired from the Board on 26 September 2008.

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

By order of the Board
G S Rice
For and on behalf of Henderson Secretarial Services Limited,
Secretary
30 July 2009

Corporate Governance Statement

Background

The UK Listing Authority requires all listed companies to disclose how they have applied the principles and complied with the provisions of The Combined Code on Corporate Governance ("the Code").

Throughout the year under review the Code in force was The Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003 and revised in June 2006. In addition, the AIC Code of Corporate Governance, issued by the Association of Investment Companies in July 2003 and revised in March 2009, applies to the Company ("the AIC Code").

Statement of compliance

The directors consider that the Company has complied during the year ended 31 May 2009 with all the relevant provisions set out in the Code. The directors consider that the Company has complied throughout the year ended 31 May 2009 with the AIC Code.

Application of the principles of the Code

The Company is committed to high standards of corporate governance and the Board attaches importance to the matters set out in the Code and applies its principles. However, as an investment trust company, most of the Company's day to day responsibilities are delegated to third parties and the directors are all non-executive. Thus not all of the provisions of the Code are directly applicable to the Company.

The Board of directors

The Board is collectively responsible for the success of the Company. Its role is to provide entrepreneurial leadership within a framework of prudent and effective controls that enable risk to be assessed and managed. The Board is responsible for setting the Company's standards and values and for ensuring that its obligations to its shareholders and others are understood and met. The Board sets the Company's strategic aims (subject to the Company's memorandum and articles of association, and to such approval of the shareholders in general meeting as may be required from time to time) and ensures that the necessary resources are in place to enable the Company's objectives to be met.

The Board currently consists of five non-executive directors, all of whom the directors consider to be independent of the Company's Manager (Henderson Global Investors Limited). Their biographical details, set out on page 2 and expanded on page 11, demonstrate a breadth of investment, commercial and professional experience with an international perspective.

The Board meets at least five times a year and deals with the important aspects of the Company's affairs, including the setting of parameters for and the monitoring of investment strategy and the review of investment performance. The Board sets limits on the size and concentration of new investments, on any use of derivatives and on the extent to which borrowings may be used. The application of these and other restrictions, including those which govern the Company's tax status as an investment trust, are reviewed regularly at meetings of the Board. The Manager takes decisions as to the purchase and sale of individual investments and is responsible for effecting those decisions on the best available terms.

The Chairman is responsible for leading the Board and for ensuring that it continues to deal effectively with all the aspects of its role. In particular, he ensures that the Manager provides the directors, in a timely manner, with management, regulatory and financial information that is clear, accurate and relevant. Representatives of the Manager attend each Board meeting, enabling the directors to seek clarification on specific issues or to probe further on matters of concern. Matters specifically reserved for decision by the full Board have been defined and there is an agreed procedure for directors, in the furtherance of their duties, to take independent professional advice, if necessary, at the Company's expense. The directors have access to the advice and services of the corporate company secretary, through its appointed representative, who is responsible to the Board for ensuring that Board procedures are followed.

When a director is appointed he or she is offered a tailored introductory programme organised 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 encouraged to attend suitable training courses on an ongoing basis at the Company's expense.

Corporate Governance Statement
continued

Directors are appointed for specified terms, subject to re-election and to the provisions of the Companies Acts. In accordance with the Company's articles of association, directors stand for election at the first annual general meeting following their appointment and stand for re-election at every third annual general meeting thereafter. Directors who serve for more than nine years stand for re-election annually.

The Board's tenure and succession policy seeks to ensure that the Board is well balanced and refreshed regularly by the appointment of new directors with the skills and experience necessary, in particular, to replace those lost by directors' retirements. Directors must be able to demonstrate their commitment, including in terms of time, to the Company. The Board is of the view, however, that length of service does not of itself impair a director's ability to act independently. Rather, a long-serving director can offer a perspective that adds value to the deliberations of a well-balanced investment trust company board. Accordingly, the Board does not consider that directors lose their independence solely by virtue of length of service but the roles and contributions of long-serving directors will be subject to particularly rigorous review every year.

The Board's procedure in the current year for evaluating the performance of the Board, its committees and the individual directors has been by means of discussion. The evaluation process is designed to show whether individual directors continue to contribute effectively to the Board and to clarify the strengths and weaknesses of the Board's composition and processes. The Chairman takes the lead in acting on the results of the evaluation process. In respect of the Chairman, a meeting of the directors was held, without the Chairman present, to evaluate his performance.

The Chairman of the Company is an independent non-executive director. A senior non-executive director, Mr J M P Taylor, was appointed in 2005; on his retirement in September 2008, Mr J J Nelson was appointed senior non-executive director in his place. Nevertheless, the Board considers that all the directors have different qualities and areas of expertise on which they may lead when issues arise.

Board committees

The Board has established Audit, Management Engagement and Nomination Committees with defined terms of reference and duties. All three committees comprise non-executive directors appointed by the Board; the Board also appoints the Chairman of each of the Committees. The membership of these Committees is set out on page 2. A record of the meetings held during the year is set out on page 12.

The terms of reference of the three committees are available for inspection on the Manager's investment trust website www.hendersonsmallercompanies.com or on application to the Company's registered office.

Audit Committee

Although none of the members of the Audit Committee is by profession an accountant, the Board considers that several of the directors, including the Chairman of the Audit Committee, have recent and relevant financial experience from their senior management roles elsewhere. The Audit Committee's programme is to meet at least three times a year: in advance of the publication of both the annual and the half year results and on at least one other occasion with an agenda that is focused on its broader responsibilities.

The role of the Audit Committee is to assist the Board in applying financial reporting and internal control principles and to maintain an appropriate relationship with the auditors. The Audit Committee is responsible for the review of the annual report and the half year report and for monitoring the integrity of the Company's financial statements generally, including consideration of the Company's accounting policies and significant reporting judgements. It reviews the nature and scope of the external audit and the findings therefrom, and the terms of appointment of the auditors, including their remuneration and the provision of any non-audit services by them. It also monitors the auditors' independence and objectivity and the effectiveness of the audit process. 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. It is responsible to the Board for monitoring the

Corporate Governance Statement

continued

Company's internal control and risk management procedures. The Audit Committee met three times during the year to carry out these duties.

Management Engagement Committee

The Management Engagement Committee is responsible for the regular review of the terms of the management contract with the Manager. The Management Engagement Committee did not meet formally during the year.

Nomination Committee

The Nomination Committee is responsible for making recommendations on the appointment of new directors. Each director is invited to submit nominations and external advisers may be used to identify potential candidates. The nominations list is considered by the Board as a whole, in accordance with its agreed procedures, although the Chairman would not expect to be involved in the selection of his successor.

The Nomination Committee did not meet formally during the year.

Directors' remuneration

The Board as a whole considers the directors' remuneration; therefore it has not appointed a separate remuneration committee for this purpose. Because the Company is an investment trust company and all its directors are non-executive, the Company is not required to comply with the provisions of the Code in respect of the remuneration of executive directors. The directors' fees are detailed in the Directors' Remuneration Report on pages 18 and 19. The directors have undertaken to use part of their fees, after statutory deductions, to purchase shares in the Company.

Relations with shareholders

It is the Chairman's role to ensure effective communication with the Company's shareholders and it is the responsibility of the Board to ensure that satisfactory dialogue takes place, based on the mutual understanding of objectives.

The Board seeks to develop an understanding of the views of the major shareholders by receiving reports from the Manager on meetings it has with shareholders and analysts and from the Company's stockbrokers on contact it has with shareholders and with potential investors. The Chairman, and other members of the Board if requested, expect to be available to talk to major shareholders if asked to do so.

The Board considers that the annual general meeting should provide an effective forum for individual investors to communicate with the directors. The annual general meeting is chaired by the Chairman of the Board. All the other directors, including the Chairman of the Audit Committee, expect to be present. Details of the proxy votes received in respect of each resolution are made available to shareholders and shown on the Henderson website. Representatives of the Manager make a presentation to the meeting. The Company has adopted a nominee share code which is set out on page 51.

Accountability and audit

The directors' statement of responsibilities in respect of the accounts is set out on page 17. The responsibilities of the independent auditors are set out on pages 24 and 25. The directors' statement that the business is a going concern is set out on page 23.

The Board has delegated contractually to external agents, 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 the 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, either the Chairman or another director attends meetings of all the chairmen of the investment trust companies managed by the Manager; these meetings provide a forum to discuss industry matters and the Chairman reports on them to the Board.

The Manager and BNP Paribas Securities Services SA have arrangements in place by which their staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.

Corporate Governance Statement
continued

Internal control
The Manager has established an internal control framework to provide reasonable 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 internal audit and compliance and risk departments on an ongoing basis.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This process is subject to regular review by the Board and accords with the Turnbull guidance. The process was fully in place during the year under review and up to the date of this annual report. In addition, the Board has conducted its annual review of the effectiveness of the Company's system of internal control, covering all the controls, including financial, operational and compliance controls and risk management systems. This review took into account points raised during the year in the Board's regular appraisal of specific areas of risk. The Board confirms that, had any significant failings or weaknesses been identified by that review, necessary actions would have been taken to remedy them. The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risks of failure to achieve the Company's business objective and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board, assisted originally by the Manager, undertook a full review of the Company's business risks and these are analysed and recorded in a risk map. This was reviewed in detail by the Audit Committee during the year. The Board receives each quarter from the Manager a formal report which details the steps taken to monitor the areas of risk, including those that are not directly the responsibility of the Manager, and which reports the details of any known internal control failures. The Board receives each year from the Manager a report on its internal controls (an AAF 01/06 report) which includes a report from the Manager's auditors on the control policies and procedures in operation.

The Company does not have an internal audit function; it delegates to third parties most of its operations and does not employ any staff. Accordingly, in practice the Board must place reliance on the Manager and its other contractors to ensure that they operate effective internal audit functions. The Board will continue to monitor its system of internal control in order to provide assurance that it operates as intended and the directors will review at least annually whether a function equivalent to an internal audit is needed. The Board confirms that, in the event of any significant failings or weaknesses being identified by the annual review of the effectiveness of the Company's system of internal control, necessary actions would be taken to remedy them.

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

The directors consider this to be the case, notwithstanding the continuation vote to be held at the Annual General Meeting in 2010 and every third year thereafter.

Environmental and human rights policy and the exercise of voting powers
The Code emphasises that the way in which institutional investors use their power to influence the standards of corporate governance is of fundamental importance and their readiness to do this turns on the degree to which they see it as their responsibility as owners, and in the interest of those whose money they are investing, to bring about changes in companies when necessary.

In this regard, the Company's Manager follows a responsible investment policy covering the UK requirements of the Code in full. The Manager votes with this policy in mind and enjoys the benefits of having its own socially responsible investment and corporate engagement teams. The Board has approved a corporate governance voting policy for the United Kingdom which accords with current best practice whilst maintaining a primary focus on financial returns.

Report of the Independent Auditors

to the members of The Henderson Smaller Companies Investment Trust plc

We have audited the financial statements of The Henderson Smaller Companies Investment Trust plc for the year ended 31 May 2009 which comprise the Consolidated Income Statement, the Consolidated and Parent Company Statements of Changes in Equity, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Cash Flow Statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 17, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Sections 495 to 497 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 May 2009 and of the group's loss and group's and parent company's cash flows for the year then ended;

- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;

- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and

- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

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 Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Report of the Independent Auditors
continued

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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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 23, in relation to going concern; and
- the parts of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the 2006 Combined Code specified for our review.

Marcus Hine (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
30 July 2009

Consolidated Income Statement

for the year ended 31 May 2009

Notes		Year ended 31 May 2009 Revenue return £'000	Year ended 31 May 2009 Capital return £'000	Year ended 31 May 2009 Total £'000	Year ended 31 May 2008 Revenue return £'000	Year ended 31 May 2008 Capital return £'000	Year ended 31 May 2008 Total £'000
2	Investment income	**6,271**	**–**	**6,271**	7,086	–	7,086
3	Other income	**947**	**–**	**947**	108	–	108
10	Losses on investments held at fair value through profit or loss	**–**	**(95,301)**	**(95,301)**	–	(70,417)	(70,417)
	Total income/(loss)	**7,218**	**(95,301)**	**(88,083)**	7,194	(70,417)	(63,223)
	Expenses						
4	Management and performance fees	**(687)**	**–**	**(687)**	(1,156)	–	(1,156)
4	Write-back of VAT	**1,150**	**–**	**1,150**	1,312	437	1,749
5	Other expenses	**(360)**	**–**	**(360)**	(373)	–	(373)
	Profit/(loss) before finance costs and taxation	**7,321**	**(95,301)**	**(87,980)**	6,977	(69,980)	(63,003)
6	Finance costs	**(2,376)**	**–**	**(2,376)**	(3,109)	–	(3,109)
	Profit/(loss) before taxation	**4,945**	**(95,301)**	**(90,356)**	3,868	(69,980)	(66,112)
7	Taxation	**(9)**	**–**	**(9)**	–	–	–
	Profit/(loss) for the year	**4,936**	**(95,301)**	**(90,365)**	3,868	(69,980)	(66,112)
8	**Earnings/(loss) per ordinary share**	**6.30p**	**(121.71)p**	**(115.41)p**	4.64p	(83.96)p	(79.32)p

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

All items in the above statement derive from continuing operations.

All income is attributable to the equity holders of The Henderson Smaller Companies Investment Trust plc, the parent company. There are no minority interests.

The notes on pages 30 to 47 form part of these financial statements.

Consolidated and Parent Company Statements of Changes in Equity

for the year ended 31 May 2009

Notes		**Consolidated Year ended 31 May 2009** Called up share capital £'000	Capital redemption reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
	Balance at 31 May 2008	**20,113**	**25,303**	**200,986**	**9,069**	**255,471**
	Buy-backs of ordinary shares	**(770)**	**770**	**(5,750)**	**–**	**(5,750)**
	Buy-back of preference stock (in 2008)	**–**	**5**	**(5)**	**–**	**–**
	(Loss)/profit for the year	**–**	**–**	**(95,301)**	**4,936**	**(90,365)**
9	Ordinary dividend paid	**–**	**–**	**–**	**(3,007)**	**(3,007)**
	Balance at 31 May 2009	**19,343**	**26,078**	**99,930**	**10,998**	**156,349**

		Consolidated Year ended 31 May 2008 Called up share capital £'000	Capital redemption reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
	Balance at 31 May 2007	21,657	23,759	287,650	6,634	339,700
	Buy-backs of ordinary shares	(1,544)	1,544	(16,684)	–	(16,684)
	(Loss)/profit for the year	–	–	(69,980)	3,868	(66,112)
9	Ordinary dividend paid	–	–	–	(1,433)	(1,433)
	Balance at 31 May 2008	20,113	25,303	200,986	9,069	255,471

		Company Year ended 31 May 2009 Called up share capital £'000	Capital redemption reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
	Balance at 31 May 2008	**20,113**	**25,303**	**203,251**	**6,804**	**255,471**
	Buy-backs of ordinary shares	**(770)**	**770**	**(5,750)**	**–**	**(5,750)**
	Buy-back of preference stock (in 2008)	**–**	**5**	**(5)**	**–**	**–**
	(Loss)/profit for the year	**–**	**–**	**(95,302)**	**4,937**	**(90,365)**
9	Ordinary dividend paid	**–**	**–**	**–**	**(3,007)**	**(3,007)**
	Balance at 31 May 2009	**19,343**	**26,078**	**102,194**	**8,734**	**156,349**

		Company Year ended 31 May 2008 Called up share capital £'000	Capital redemption reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
	Balance at 31 May 2007	21,657	23,759	289,917	4,367	339,700
	Buy-backs of ordinary shares	(1,544)	1,544	(16,684)	–	(16,684)
	(Loss)/profit for the year	–	–	(69,982)	3,870	(66,112)
9	Ordinary dividend paid	–	–	–	(1,433)	(1,433)
	Balance at 31 May 2008	20,113	25,303	203,251	6,804	255,471

The notes on pages 30 to 47 form part of these financial statements.

Consolidated and Parent Company Balance Sheets

at 31 May 2009

Notes		**Consolidated 2009 £'000**	Consolidated 2008 £'000	**Company 2009 £'000**	Company 2008 £'000
	Non current assets				
10	Investments held at fair value through profit or loss	**174,232**	286,819	**176,496**	289,084
	Current assets				
13	Other receivables	**2,854**	3,290	**2,854**	3,290
	Cash and cash equivalents	**234**	672	**234**	672
		3,088	3,962	**3,088**	3,962
	Total assets	**177,320**	290,781	**179,584**	293,046
	Current liabilities				
14	Other payables	**(967)**	(1,806)	**(3,231)**	(4,071)
	Bank loans	**–**	(13,500)	**–**	(13,500)
		(967)	(15,306)	**(3,231)**	(17,571)
	Total assets less current liabilities	**176,353**	275,475	**176,353**	275,475
	Non current liabilities				
15	Financial liabilities	**(20,004)**	(20,004)	**(20,004)**	(20,004)
	Net assets	**156,349**	255,471	**156,349**	255,471
	Equity attributable to equity shareholders				
17	Called up share capital	**19,343**	20,113	**19,343**	20,113
18	Capital redemption reserve	**26,078**	25,303	**26,078**	25,303
	Retained earnings				
18	Other capital reserves	**99,930**	200,986	**102,194**	203,251
19	Revenue reserve	**10,998**	9,069	**8,734**	6,804
	Total equity	**156,349**	255,471	**156,349**	255,471
20	**Net asset value per ordinary share**	**202.1p**	317.6p	**202.1p**	317.6p

These financial statements were approved by the Board of directors on 30 July 2009 and signed on their behalf by:

J D Fishburn

The notes on pages 30 to 47 form part of these financial statements.

Consolidated and Parent Company Cash Flow Statements

for the year ended 31 May 2009

	Year ended 31 May 2009 Consolidated £'000	**Year ended 31 May 2009 Company £'000**	Year ended 31 May 2008 Consolidated £'000	Year ended 31 May 2008 Company £'000
Operating activities				
Loss before taxation	**(90,356)**	**(90,356)**	(66,112)	(66,112)
Add: interest paid	**2,376**	**2,376**	3,110	3,110
Add: losses on investments held at fair value through profit or loss	**95,301**	**95,302**	70,417	70,417
Add: net sales of investments held at fair value through profit or loss	**17,286**	**17,286**	23,409	23,409
Decrease/(increase) in other receivables	**893**	**893**	(1,752)	(1,752)
(Increase)/decrease in amounts due from brokers	**(443)**	**(443)**	405	405
Decrease in other payables	**(106)**	**(107)**	(2,423)	(2,423)
(Decrease)/increase in amounts due to brokers	**(727)**	**(727)**	76	76
Taxation on investment income	**(23)**	**(23)**	(11)	(11)
Net cash inflow from operating activities before interest and taxation	**24,201**	**24,201**	27,119	27,119
Interest paid	**(2,382)**	**(2,382)**	(3,110)	(3,110)
Net cash inflow from operating activities	**21,819**	**21,819**	24,009	24,009
Financing activities				
Equity dividend paid	**(3,007)**	**(3,007)**	(1,433)	(1,433)
Buy-backs of ordinary shares	**(5,750)**	**(5,750)**	(16,739)	(16,739)
Repayment of loans	**(13,500)**	**(13,500)**	(6,546)	(6,546)
Repurchase of preference stock	**–**	**–**	(5)	(5)
Net cash outflow from financing	**(22,257)**	**(22,257)**	(24,723)	(24,723)
Decrease in cash and cash equivalents	**(438)**	**(438)**	(714)	(714)
Cash and cash equivalents at the start of the year	**672**	**672**	1,360	1,360
Exchange movements	**–**	**–**	26	26
Cash and cash equivalents at the end of the year	**234**	**234**	672	672

The notes on pages 30 to 47 form part of these financial statements.

Notes to the Financial Statements

1 Accounting policies

(a) Basis of preparation

The consolidated and parent company financial statements for the year ended 31 May 2009 have been prepared in accordance with International Financial Reporting Standards ("IFRS") and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. These comprise standards and interpretations approved by the International Accounting Standards Board ("IASB"), together with interpretations of the International Accounting Standards and Standing Interpretations Committee approved by the International Accounting Standards Committee ("IASC") that remain in effect, to the extent that IFRS have been adopted by the European Union.

The financial statements have been prepared on a going concern basis and on the historical cost basis, except for the revaluation of certain financial instruments. The principal accounting policies adopted are set out below. Where presentational guidance set out in the Statement of Recommended Practice ("the SORP") for investment trusts issued by the Association of Investment Companies ("the AIC") in January 2009 is consistent with the requirements of IFRS, the directors have sought to prepare the financial statements on a basis consistent with the recommendations of the SORP.

(i) Standards, amendments and interpretations becoming effective in the year to 31 May 2009 but not relevant to the Group or Company:

- IFRIC 11 *IFRS 2 – Group and treasury share transactions*
- IFRIC 12 *Service concession arrangements*
- IFRIC 14 *IAS 19 – the limit on a defined benefit asset, minimum funding requirements and their interaction*.

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

- IAS 1 (revised) *Presentation of Financial Statements* (effective for financial years beginning on or after 1 January 2009). Introduces financial statement name changes for the purposes of accounting standards. The new names are not mandatory for financial reporting and the Group does not currently expect to apply the new statement names.
- IAS 23 (amendment) *Borrowing costs* (effective for financial years beginning on or after 1 January 2009). It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. The Group has no qualifying assets.
- IFRS 3 (revised) *Business combinations* (effective for financial periods beginning on or after 1 July 2009). Changes elements of the acquisition method for business combinations, including that all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt, subsequently re-measured through the income statement. The Group will apply IFRS 3 (revised) to all business combinations from 1 June 2010, subject to endorsement by the EU.
- IAS 27 (revised) *Consolidated and Separate Financial Statements* (Consequential amendments arising from IFRS 3 *Business Combinations*) (effective for financial years beginning on or after 1 July 2009, subject to endorsement by the EU). This standard is unlikely to have any significant impact on the Group. The Group expects to apply IAS 27 (revised) from 1 June 2010.
- IFRS 8 *Operating segments* (effective for financial years beginning on or after 1 January 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, Disclosures about segments of an enterprise and related information. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group expects to apply IFRS 8 from 1 June 2009. This standard is unlikely to have a significant effect on the Group.

Notes to the Financial Statements
continued

1 Accounting policies (continued)

- IAS 39 (amendment) *Financial Instruments: Recognition and Measurement*. The amendment permits an entity to reclassify particular financial assets in some circumstances. The Group and Company will apply the IAS 39 (amendment) from 1 June 2009. It is not expected to have an impact on the Group or Company's financial statements.

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

- IAS 8 *Accounting Policies, changes in accounting estimates and errors*
- IAS 10 *Events after the reporting period*
- IAS 18 *Revenue*
- IAS 28 (amendment) *Investments in associates*
- IAS 32 (amendment) *Financial instruments: presentation* and IAS 1 *Presentation of financial statements – Puttable financial instruments and obligations arising on liquidation*
- IAS 34 *Interim financial reporting*
- IAS 36 (amendment) *Impairment of Assets*
- IFRS 7 *Financial Instruments: Disclosures*

(iii) Standards, amendments and interpretations to existing standards that become effective in future accounting periods and are not relevant for the Group's operations:

- IFRIC 13 *Customer loyalty programmes*
- IAS 16 (amendment) *Property, plant and equipment* (and consequential amendment to IAS 7 *Statement of cash flows*)
- IAS 29 (amendment) *Financial reporting in hyperinflationary economies*
- IAS 31 (amendment) *Interests in joint ventures* (and consequential amendments to IAS 32 and IFRS 7)
- IAS 38 (amendment) *Intangible assets*
- IAS 40 (amendment) *Investment property* (and consequential amendments to IAS 16)
- IAS 41 (amendment) *Agriculture*
- IAS 20 (amendment) *Accounting for government grants and disclosure of government assistance*
- IFRIC 15 *Agreements for construction of real estates*

(b) Basis of consolidation

The Group accounts consolidate the accounts of the Company and of its sole wholly owned subsidiary undertaking, Henderson Smaller Companies Finance Limited. The inter-group balances are eliminated on consolidation. The investment in the subsidiary is recognised at fair value in the financial statements of the Company.

Notes to the Financial Statements

continued

Accounting policies (continued)

(c) Investments held at fair value through profit or loss

All investments are designated upon initial recognition as held at fair value through profit or loss. Investment transactions are accounted for on a trade date basis. Assets are de-recognised at the trade date of the disposal. Proceeds are measured at fair value, which is regarded as the proceeds of sale less any transaction costs. The fair value of the financial instruments is based on their quoted bid price at the balance sheet date, without deduction of the estimated future selling costs. Unquoted investments (including the Company's investment in its subsidiary) are valued by the directors using primary valuation techniques such as earnings multiples, recent transactions and net assets. Where fair value cannot be reliably measured the investment will be carried at the previous reporting date value unless there is evidence that the investment has since been impaired, in which case the value will be reduced.

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". Also included within this caption are transaction costs in relation to the purchase or sale of investments, including the difference between the purchase price of an investment and its bid price at the date of purchase.

(d) Presentation of the Income Statement

In order to better reflect the activities of an investment trust company, and in accordance with guidance issued by the Association of Investment Companies ("AIC"), supplementary information which analyses the Income Statement between items of a revenue and capital nature has been presented alongside the Income Statement. In accordance with the Company's status as a UK investment company under section 266 of the Companies Act 1985 and section 833 of the Companies Act 2006, net capital returns may not be distributed by way of dividend. Additionally, the net revenue is the measure the directors believe appropriate in assessing the Group's compliance with certain requirements set out in section 842 of the Income and Corporation Taxes Act 1988.

(e) Income

Dividends receivable on equity shares are recognised as revenue for the year on an ex-dividend basis. Special dividends are treated as revenue return or as capital return, depending on the facts of each individual case. Income from fixed interest debt securities is recognised using the effective interest rate method. The trading profits of the subsidiary undertaking, which represent realised gains and losses on the sale of current asset investments, are dealt with in the revenue column of the Income Statement as a revenue item. Bank deposit interest is accounted for on an accruals basis. Underwriting commission is recognised as it is earned.

Where the Group enters into a commitment to sub-underwrite an issue of securities, a derivative financial instrument is recognised at fair value. The derivative is re-measured to fair value, with the related gains and losses being reflected in the Income Statement.

Commissions in respect of sub-underwriting are recognised when the underwritten issue closes and are generally recognised within the Income Statement as revenue. Where, however, the Company is required to take up a proportion of the shares underwritten, the same proportion of the commission received is recognised as capital, with the balance recognised as revenue.

(f) Expenses

All expenses and interest payable are accounted for on an accruals basis. All administration expenses, including the management fee and interest payable, are charged to the revenue column of the Income Statement. Expenses which are incidental to the purchase or sale of an investment are charged to the capital column of the Income Statement and allocated to the other capital reserves.

Purchase and sale transaction costs for the year ended 31 May 2009 were £126,000 and £55,000 respectively (2008: transaction costs of purchases £266,000; transaction costs of sales £116,000). These comprise mainly stamp duty and commission.

Any performance fee is allocated wholly to capital, reflecting the fact that, although it is calculated on a total return basis, it is expected to be attributable largely, if not wholly, to capital performance.

Notes to the Financial Statements
continued

1 Accounting policies (continued)

(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 period. 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 Group's liability for current tax is calculated using tax rates that were applicable at the balance sheet date.

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 tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Investment trusts which have approval as such under section 842 of the Income and Corporation Taxes Act 1988 are not liable for taxation on capital gains.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the Income Statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(h) Foreign currency

For the purposes of the consolidated accounts, the results and financial position of each entity is expressed in pounds sterling, which is the functional currency of the Company and the presentational currency of the Group. Sterling is the functional currency because it is the currency of the primary economic environment in which the Group operates.

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

(i) Cash and cash equivalents

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

(j) Borrowings

Interest-bearing bank loans, overdrafts, debentures and preference stock are recorded initially at fair value, being the proceeds received, net of direct issue costs. They are subsequently measured at amortised cost. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the 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.

The preference stock has been classified as a liability as it represents a contractual obligation on behalf of the Company to deliver to the stockholders a fixed and determinable amount at the date of redemption.

Notes to the Financial Statements

continued

2 Investment income

	2009 £'000	2008 £'000
Franked income from companies listed or quoted in the United Kingdom:		
Dividends	**5,736**	6,668
Special dividends	**39**	118
Unfranked income from companies listed or quoted in the United Kingdom:		
Dividends	**365**	246
Property income distributions	**108**	32
Stock dividends	**23**	22
Total investment income	**6,271**	7,086

3 Other income

	2009 £'000	2008 £'000
Bank interest	**22**	61
Interest on the refund of VAT	**749**	–
Underwriting commission (allocated to revenue)*	**176**	47
	947	108

*A further £13,000 (2008: £2,000) of commission in respect of shares taken up has been allocated to capital.

4 Management and performance fees

	2009 Revenue £'000	2009 Capital £'000	2009 Total £'000	2008 Revenue £'000	2008 Capital £'000	2008 Total £'000
Management fee	**687**	**–**	**687**	1,083	–	1,083
Irrecoverable VAT thereon	**–**	**–**	**–**	73	–	73
	687	**–**	**687**	1,156	–	1,156
Write-back of VAT	**(1,150)**	**–**	**(1,150)**	(1,312)	(437)	(1,749)
	(463)	**–**	**(463)**	(156)	(437)	(593)

No performance fee was payable in the period (2008: none). A summary of the management agreement is given on pages 13 and 14 in the Directors' Report.

VAT on management fees

Following a judgement of the European Court of Justice in June 2007, HM Revenue & Customs ("HMRC") accepted that the provision of investment management services to investment trust companies is VAT exempt and acknowledged its liability to pay claims in respect of VAT borne by investment trust companies.

The Manager (Henderson Global Investors Limited) has reclaimed from HMRC the amount of VAT charged to the Company in respect of investment management services in the period from 1 October 2000 to 30 September 2007. An amount of £1,749,000 was recognised in the financial statements for the year ended 31 May 2008, reflecting the extent that recovery by the Company was then considered to be certain. A further £306,000 was recognised in the year ended 31 May 2009, based on the settlement reached with HMRC in respect of this period. Interest of £347,000 was received in respect of these amounts during the year ended 31 May 2009 and is included in other income (see note 3 above).

Notes to the Financial Statements

continued

4 Management and performance fees (continued)

The Manager (Henderson Global Investors Limited) is in the process of reclaiming from HMRC the amount of VAT charged to the Company in respect of investment management services in the period from 1 January 1990 to 4 December 1996. An amount of £844,000 has been recognised in the year ended 31 May 2009, reflecting the extent that recovery by the Company is considered to be certain. Similarly, interest on this amount of £402,000 has been recognised and is included in other income (see note 3).

The write-backs of VAT have been allocated between revenue return and capital return according to the allocation of the amounts originally paid.

VAT has not been applied to investment management fees invoiced since September 2007.

The Company may be able to recover further amounts of the VAT charged on investment management fees back to 1990. However, the Board considers that currently there are too many uncertainties for any reasonable estimate of the total further amounts potentially recoverable to be calculated.

5 Other expenses

	2009 £'000	2008 £'000
Directors' fees (see the directors' remuneration report on pages 18 and 19)	**96**	93
Remuneration for audit of the parent company and the consolidated accounts (including £26,000 (2008: £27,000) relating to the parent undertaking and £1,000 (2008: £1,000) to the subsidiary)	**27**	28
Other professional fees	**122**	50
FSA and London Stock Exchange fees	**21**	17
Registration costs	**11**	13
Annual and half year reports and shareholder circulars: printing and distribution	**33**	17
Insurances	**22**	23
AIC subscriptions	**28**	33
Custody and other bank charges	**19**	40
Bank facilities: non-utilisation commissions	**(41)**	24
Charitable donations	**5**	5
Other expenses payable to the management company*	**(10)**	16
Share price listings in newspapers	**9**	7
Other expenses	**18**	7
	360	373

*Other expenses payable to the management company ("Henderson") relate to the employment of additional marketing staff by Henderson and, formerly, to the marketing and administration of Itshenderson (formerly the Henderson Investment Trust Share Plan).

6 Finance costs

	2009 £'000	2008 £'000
Bank overdraft and loan interest	**276**	1,009
Interest on debentures that are repayable wholly or partly after five years	**2,100**	2,100
	2,376	3,109

Notes to the Financial Statements

continued

7 Taxation

(a) Taxation charge on ordinary activities

	2009 £'000	2008 £'000
Current tax charge	**9**	–

(b) Factors affecting the tax charge for the year

Approved investment trusts are exempt from tax on capital gains made by the investment trust.
The tax assessed for the year is higher than the standard rate of corporation tax in the UK of 28% (2008: 29.7%) for the year ended 31 May 2009. (The rate was 30% until 31 March 2008 and 28% from 1 April 2008, an effective rate for the prior year of 29.7%.) The differences are explained below:

	2009 Revenue return £'000	**2009 Capital return £'000**	**2009 Total £'000**	2008 Revenue return £'000	2008 Capital return £'000	2008 Total £'000
Net profit/(loss) on ordinary activities before taxation	**4,945**	**(95,301)**	**(90,356)**	3,868	(69,980)	(66,112)
Corporation tax at 28% (2008: 29.7%)	**1,385**	**(26,684)**	**(25,299)**	1,149	(20,784)	(19,635)
Effects of:						
Non-taxable UK dividends	**(1,624)**	**–**	**(1,624)**	(2,021)	–	(2,021)
Income taxable in different years	**(17)**	**–**	**(17)**	8	–	8
Excess management expenses and loan deficits	**260**	**–**	**260**	858	(130)	728
Overseas withholding tax suffered	**9**	**–**	**9**	–	–	–
Disallowable expenses	**(4)**	**–**	**(4)**	6	–	6
Non-taxable losses on investments held at fair value through profit or loss	**–**	**26,684**	**26,684**	–	20,914	20,914
Current tax charge	**9**	**–**	**9**	–	–	–

(c) Provision for deferred taxation

No provision for deferred taxation has been made in the current year or in the prior year.
The Company has not provided for deferred tax on capital gains or losses arising on the revaluation or disposal of investments as it is exempt from tax on these items because of its status as an investment trust company.

(d) Factors that may affect future tax charges

The Company has not recognised a deferred tax asset of £11,573,000 (2008: £12,130,000) arising as a result of having unutilised management expenses and deficits on loan relationships, and eligible unrelieved foreign tax of £9,000. These expenses will only be utilised if the tax treatment of the capital gains made by the Company changes or if the Company's investment profile changes.

Notes to the Financial Statements

continued

8 Earnings/(loss) per ordinary share

The loss per ordinary share figure is based on the net losses for the year of £90,365,000 (2008: £66,112,000) and on 78,298,336 (2008: 83,350,298) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

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

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

	2009 £'000	2008 £'000
Net revenue profit	**4,936**	3,868
Net capital loss	**(95,301)**	(69,980)
Net total loss	**(90,365)**	(66,112)
Weighted average number of ordinary shares in issue during the year	**78,298,336**	83,350,298

	Pence	Pence
Revenue earnings per ordinary share	**6.30**	4.64
Capital losses per ordinary share	**(121.71)**	(83.96)
Total losses per ordinary share	**(115.41)**	(79.32)

9 Dividends

	2009 £'000	2008 £'000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 May 2008 of 2.20p (2008: 1.70p per ordinary share)	**1,741**	1,433
Special dividend for the year ended 31 May 2008 of 1.60p	**1,266**	–
	3,007	1,433

The final dividend of 2.20p per ordinary share and the special dividend of 1.60p per ordinary share in respect of the year ended 31 May 2008 were paid on 3 October 2008 to shareholders on the register of members at the close of business on 29 August 2008. The total dividends paid amounted to £3,007,000.

Subject to approval at the Annual General Meeting, the proposed final dividend of 3.00p per ordinary share and special dividend of 2.60p per ordinary share will be paid on 9 October 2009 to shareholders on the register of members at the close of business on 11 September 2009.

No provision has been made for the final dividend and the special dividend in these accounts due to the adoption of IFRS. Under IFRS, the final dividend is not recognised until approved by the shareholders. Previously dividends were recognised in respect of the period to which they related.

Notes to the Financial Statements

continued

9 Dividends (continued)

The total dividends payable in respect of the financial year which form the basis of section 842 of the Income and Corporation Taxes Act 1988 are set out below:

	2009 £'000
Revenue available for distribution by way of dividends for the year	**4,936**
Proposed final dividend for the year ended 31 May 2009: 3.00p	**(2,255)**
Proposed special dividend for the year ended 31 May 2009: 2.60p	**(1,954)**
(both the above are based on the 75,170,296 shares in issue at 29 July 2009)	
Undistributed revenue for section 842 purposes*	**727**

*Undistributed revenue comprises 11.6% of the income from investments of £6,271,000 (see note 2).

10 Investments held at fair value

(a) Group

	£'000
Cost at 1 June 2008	**217,218**
Investment holding gains at 1 June 2008	**69,601**
Valuation at 1 June 2008	**286,819**
Movements in the year:	
Acquisitions at cost	**25,540**
Disposals at cost	**(47,112)**
Movement in investment holding gains	**(91,015)**
Valuation at 31 May 2009	**174,232**
Cost at 31 May 2009	**195,646**
Investment holding losses	**(21,414)**
Valuation at 31 May 2009	**174,232**

Included in the total investments are (i) unlisted investments that are quoted on the Alternative Investment Market of £15,262,000 (2008: £25,282,000) and (ii) unlisted investments that are unquoted and shown at the directors' fair valuation of £119,000 (2008: £nil).

At 31 May 2009 no convertible or fixed interest securities were held in the portfolio (2008: nil).

Notes to the Financial Statements
continued

10 Investments held at fair value (continued)

(b) Company	**Investments £'000**	**Subsidiary undertaking £'000**	**Total £'000**
Cost at 1 June 2008	217,218	–	**217,218**
Investment holding gains at 1 June 2008	69,601	2,265	**71,866**
Valuation at 1 June 2008	286,819	2,265	**289,084**
Movements in the year:			
Acquisitions at cost	25,540	–	**25,540**
Disposals at cost	(47,112)	–	**(47,112)**
Movement in investment holding gains	(91,015)	(1)	**(91,016)**
Valuation at 31 May 2009	174,232	2,264	**176,496**
Cost at 31 May 2009	195,646	–	**195,646**
Investment holding (losses)/gains	(21,414)	2,264	**(19,150)**
Valuation at 31 May 2009	**174,232**	**2,264**	**176,496**

Included in the total investments are (i) unlisted investments that are quoted on the Alternative Investment Market of £15,262,000 (2008: £25,282,000) and (ii) unlisted investments that are unquoted and shown at the directors' fair valuation of £2,383,000 (2008: £2,265,000).

(c) Total capital losses from investments (Group)	**2009 £'000**	2008 £'000
(Losses)/gains on the sale of investments based on historical cost	**(4,286)**	32,399
Revaluation gains recognised in previous years	**(11,841)**	(42,153)
Losses on investments sold in the year based on carrying value at the previous balance sheet date	**(16,127)**	(9,754)
Revaluation of investments held at 31 May	**(79,174)**	(60,663)
	(95,301)	(70,417)

Notes to the Financial Statements

continued

11 Subsidiary undertaking

The Company has an investment in the entire issued ordinary share capital, fully paid, of £2 in its wholly owned subsidiary undertaking, Henderson Smaller Companies Finance Limited, which is registered in England and Wales and operates in the United Kingdom as an investment dealing company. The investment is stated in the Company's accounts at net asset value, which is considered by the directors to equate to fair value.

The amount due to the subsidiary company at 31 May 2009 amounted to £2,264,000 (2008: £2,265,000). This payable has been eliminated on consolidation.

12 Substantial interests

The Group held interests in 3% or more of any class of share capital in one investee company (2008: one investee company). This investment is not considered by the directors to be significant in the context of these accounts.

13 Other receivables	**Group 2009 £'000**	Group 2008 £'000	**Company 2009 £'000**	Company 2008 £'000
Securities sold for future settlement	**512**	69	**512**	69
Tax recoverable	**37**	23	**37**	23
Prepayments and accrued income	**1,450**	1,450	**1,450**	1,450
Other receivables	**855**	1,748	**855**	1,748
	2,854	3,290	**2,854**	3,290

All receivables are due for less than six months, except for tax recoverable of £16,000 (2008: £14,000) which is past due but not impaired.

14 Other payables	**Group 2009 £'000**	Group 2008 £'000	**Company 2009 £'000**	Company 2008 £'000
Securities purchased for future settlement	**880**	1,607	**880**	1,607
Amounts owed to subsidiary undertaking	**–**	–	**2,265**	2,266
Accruals and deferred income	**87**	199	**86**	198
	967	1,806	**3,231**	4,071

15 Non current liabilities	**Group and Company 2009 £'000**	Group and Company 2008 £'000
Debenture stock: redemption after more than five years:		
$10\frac{1}{2}$ per cent Debenture Stock 2016 (redeemable at par on 31 May 2016)	**20,000**	20,000
Preference stock:		
4,257 preference stock units of £1 each (2008: 4,257)	**4**	4
	20,004	20,004

Notes to the Financial Statements
continued

15 Non current liabilities (continued)

The Company may at any time purchase any of the debenture stock, in accordance with the provisions of the trust deed constituting and securing the debenture stock. However, it is not the Company's present intention to redeem the debenture stock before the final redemption date. Accordingly the debenture stock has been included in amounts falling due after one year by reference to the final redemption date. The debenture stock is secured by way of a floating charge on all of the Company's assets.

The non-equity interests relate to the preference stock. The preference stock units carry the right to receive a non-cumulative dividend at a final rate of 0.001% payable on 1 June each year. On a winding-up of the Company, preference stockholders are entitled to repayment of the capital paid up thereon. The preference stock does not entitle the holder to attend or vote at any general meeting of the Company except where the dividend is six months in arrears or on a resolution to liquidate the Company.

16 Risk management policies and procedures

As an investment trust the Company invests for the long term in equity securities, in accordance with its investment objective as stated on the inside front cover of this document. In pursuing its investment objective, the Company is exposed to a variety of risks that could result in either a reduction in the Company's net assets or a reduction in the revenue available for distribution by way of dividends.

These risks, market risk, liquidity risk and credit risk, and the directors' approach to the management of them, are set out below. The Manager, in close co-operation with the Board, co-ordinates the Company's risk management.

The objectives, policies and processes for managing the risks, and the methods used to manage the risks, are set out below; they have not changed from the previous accounting period.

(i) 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 16 (ii)), currency risk (see note 16 (iii)) and interest rate risk (see note 16 (iv)). The Board reviews and agrees policies for managing these risks. The Manager assesses the exposure to market risk when making each investment decision and monitors the overall level of market risk on the whole of the investment portfolio on an ongoing basis.

(ii) Market price risk

Market price risk (i.e. changes in market prices other than those arising from interest rate risk or currency risk) may affect the fair value of the investments. The Company's investments are susceptible to market price risk arising from uncertainties about the future prices of the investments.

Management of the risk

The Board manages the risks inherent in the investment portfolio by ensuring full and timely access to relevant information from the Manager. The Board regularly reviews investment performance. The Board monitors the Manager's compliance with the Company's objectives and is directly responsible for investment strategy.

Notes to the Financial Statements

continued

16 Risk management policies and procedures (continued)

The Company's exposure to changes in market prices at 31 May 2009 on its equity investments was £174,232,000 (2008: £286,819,000).

Concentration of exposure to market price risk

An analysis of the Company's investments is shown on pages 6 and 7 and a sector analysis is set out on page 4. At 31 May 2009 all the investments were in companies listed or quoted in London, most of them being companies established in and operating from the United Kingdom. Accordingly, there is a concentration of exposure to the UK, although it is recognised that an investment's country of domicile or of listing does not necessarily equate to its exposure to the economic conditions in that country.

Market price risk sensitivity

The sensitivity of (a) the return after taxation for the year and (b) the Company's net assets to an increase or decrease of 25% in the fair values of the Company's investments at each balance sheet date is given below. This level of change is considered to be reasonably possible, based on observation of current market conditions.

The impact of a 25% increase in the value of the investments on the revenue return as at 31 May 2009 is a decrease of £152,000 (2008: £251,000) and on the capital return is an increase of £43,558,000 (2008: £71,705,000).

The impact of a 25% decrease in the value of the investments on the revenue return as at 31 May 2009 is an increase of £152,000 (2008: £251,000) and on the capital return is a decrease of £43,558,000 (2008: £71,705,000).

(iii) Currency risk

The Company is not itself materially exposed to currency risk, although some of the investments will be in companies that have operations that involve currency risk.

As at 31 May 2009, the Company did not hold any non-sterling denominated investments (2008: nil).

(iv) Interest rate risk

Interest rate movements may affect:

– the level of income receivable from cash at bank and on deposit; and
– the interest payable on the Company's short term borrowings.

Interest rate changes may also have an impact on the market value of the Company's equity investments. In particular, the effect of interest rate changes on the earnings of companies held within the portfolio may have a significant impact on the valuations of those companies.

Management of the risk

The possible effects on the fair value of the investments that could arise as a result of changes in interest rates are taken into account when making investment decisions and borrowing decisions. The Company rarely holds significant cash balances but finances part of its investment activity through borrowings at levels approved and monitored by the Board. The debenture stock provides long term finance at a fixed rate of interest; it was issued in 1987 to enable the Company to benefit from long term planned gearing. In addition, the Company makes use of short term borrowings. The Company has a committed bank borrowing facility for a total of £5 million; borrowings are drawn down for short periods at rates of interest that are determined by reference to the market rates applicable at the time of borrowing.

Notes to the Financial Statements

continued

16 Risk management policies and procedures (continued)

Interest rate exposure

The Company's financial liabilities at 31 May 2009 that give exposure to fixed interest rate risk are set out in note 15.

The exposure to floating interest rates can be found on the balance sheet (cash and cash equivalents and bank loans).

These amounts are not necessarily representative of the exposure to interest rates during the year, as the level of exposure changes as investments are made, borrowings are drawn down or repaid, and the mix of borrowings subject to floating or to fixed interest rates changes.

Interest rate sensitivity

The Company is not materially exposed to changes in interest rates.

(v) Liquidity risk

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

Management of the risk

Liquidity risk is not significant as the majority of the Company's assets are investments in quoted equity securities that are readily realisable. The Company has borrowed £20 million by its issue in 1987 of £20 million 10½ per cent Debenture Stock 2016. The Company is able to draw short term borrowings of up to £5 million from its committed borrowing facility of £5 million (formerly £15 million) with ING Bank N.V., London Branch (expiring on 21 May 2011). There were no borrowings drawn down under the facility at 31 May 2009 (2008: £13,500,000 drawn down under the former facility with The Royal Bank of Scotland plc). In addition, the Company has an uncommitted overdraft facility with its custodian, the extent of which is determined by the custodian on a regular basis by reference to the value of the securities held by it on behalf of the Company; there were no borrowings under the overdraft facility at 31 May 2009 (2008: none).

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

Liquidity risk exposure

The remaining contractual maturities of the financial liabilities at 31 May 2009, based on the earliest date on which payment can be required, was as follows:

	2009 Due within 1 year £'000	**2009 Due between 1 and 5 years £'000**	**2009 Due after more than 5 years £'000**	2008 Due within 1 year £'000	2008 Due between 1 and 5 years £'000	2008 Due after more than 5 years £'000
Debenture stock	**2,100**	**8,400**	**24,200**	2,100	8,400	26,300
Preference stock*	**–**	**–**	**–**	–	–	–
Bank loans and interest	**–**	**–**	**–**	13,500	–	–
Other creditors and accruals	**967**	**–**	**–**	1,806	–	–
	3,067	**8,400**	**24,200**	17,406	8,400	26,300

*The Company also has in issue non-redeemable preference stock with a total par value of £4,000 (2008: £4,000) which has a negligible ongoing finance cost.

Notes to the Financial Statements

continued

16 Risk management policies and procedures (continued)

(vi) Credit risk

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

Management of the risk

The risk is not significant, and is managed as follows:

– investment transactions are carried out with a large number of brokers, whose credit standard is reviewed regularly by the Manager, and limits are set on the amount that may be due from any one broker;

– cash at bank is held only with reputable banks with high quality external credit ratings.

In summary, the exposure to credit risk at 31 May 2009 was to cash and cash equivalents of £234,000 (2008: £672,000) and to other receivables of £2,854,000 (2008: £3,290,000) (see note 13).

(vii) Fair values of financial assets and financial liabilities

The investments are held at fair value through profit or loss. All the net current liabilities are held in the balance sheet at a reasonable approximation of fair value. At 31 May 2009 the fair value of the debenture stock was £24,000,000 (2008: £25,346,000). The debenture stock is carried in the balance sheet at par.

(viii) 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 secure long term capital growth for the shareholders by investment in quoted securities in the UK.

This is to be achieved through an appropriate balance of equity capital and gearing. The Company's policy is that its borrowings must not exceed 30% of the shareholders' funds.

The Company's total capital at 31 May 2009 was £176,353,000 (2008: £288,975,000) comprising £nil (2008: £13,500,000) of bank loans, £20,000,000 (2008: £20,000,000) of debenture stock, £4,000 (2008: £4,000) of preference stock and £156,349,000 (2008: £255,471,000) of equity share capital and other reserves.

17 Called up share capital

	2009 £'000	2008 £'000
Authorised:		
188,000,000 ordinary shares of 25p each (2008: 188,000,000)	**47,000**	47,000
Allotted, issued and fully paid:		
77,370,296 ordinary shares of 25p each (2008: 80,449,030)	**19,343**	20,113

During the year the Company made market purchases for cancellation of 3,078,734 of its own issued ordinary shares (2008: 6,177,000) at a total cost of £5,750,000 (2008: £16,684,000). A further 2,200,000 shares were bought back for cancellation between 31 May 2009 and 29 July 2009. Details of these purchases are given on page 16 in the Directors' Report.

Notes to the Financial Statements

continued

18 Capital redemption reserve and other capital reserves

(a) Group	**Capital redemption reserve £'000**	Capital reserve arising on revaluation of investments held £'000	Capital reserve arising on investments sold £'000	**Other capital reserves £'000**
At 1 June 2008	**25,303**	69,601	131,385	**200,986**
Transfer on disposal of investments (see note 10 (c))	**–**	(11,841)	11,841	**–**
Capital loss for the year	**–**	(79,174)	(16,127)	**(95,301)**
Buy-backs of ordinary shares	**770**	–	(5,750)	**(5,750)**
Buy-back of preference stock (in 2008)	**5**	–	(5)	**(5)**
At 31 May 2009	**26,078**	**(21,414)**	**121,344**	**99,930**

Investment holding gains/(losses) at 31 May 2009 includes £5,525,000 in respect of unlisted investments (2008: £77,000).

(b) Company	**Capital redemption reserve £'000**	Capital reserve arising on revaluation of investments held £'000	Capital reserve arising on investments sold £'000	**Other capital reserves £'000**
At 1 June 2008	**25,303**	71,866	131,385	**203,251**
Transfer on disposal of investments	**–**	(11,841)	11,841	**–**
Capital loss for the year	**–**	(79,175)	(16,127)	**(95,302)**
Buy-backs of ordinary shares	**770**	–	(5,750)	**(5,750)**
Buy-back of preference stock (in 2008)	**5**	–	(5)	**(5)**
At 31 May 2009	**26,078**	**(19,150)**	**121,344**	**102,194**

19 Retained earnings – revenue reserve

	Group £'000	**Company £'000**
At 1 June 2008	**9,069**	**6,804**
Ordinary dividend paid	**(3,007)**	**(3,007)**
Revenue profit for the year	**4,936**	**4,937**
At 31 May 2009	**10,998**	**8,734**

As permitted by the Companies Act 2006, the Company has not presented its own income statement. The loss after taxation of the Company amounted to £90,365,000 (2008: £66,112,000).

Notes to the Financial Statements

continued

20 Net asset value per ordinary share (Group and Company)

The net asset value per ordinary share is based on the net assets attributable to the ordinary shares of £156,349,000 (2008: £255,471,000) and on the 77,370,296 ordinary shares in issue at 31 May 2009 (2008: 80,449,030).

An alternative net asset value per ordinary share can be calculated by deducting from the total assets less current liabilities of the Group the preference stock and the debenture stock at their market (or fair) values rather than at their par (or book) values (see note 16 (vii) on page 44). The net asset value per ordinary share at 31 May 2009 calculated on this basis was 196.9p (2008: 310.9p).

The Company has no securities in issue that could dilute the net asset value per ordinary share.

The movement during the year of the net assets attributable to the ordinary shares was as follows:

	£'000
Net assets attributable to the ordinary shares at 1 June 2008	255,471
Loss for the year	(90,365)
Dividend paid in the year:	
ordinary shares	(3,007)
Repurchase of 3,078,734 ordinary shares	(5,750)
Net assets attributable to the ordinary shares at 31 May 2009	**156,349**

21 Capital commitments, contingent liabilities and contingent assets

Capital commitments

There were capital commitments of £nil as at 31 May 2009 (2008: £nil).

Contingent liabilities

At 31 May 2009 there were contingent liabilities totalling £2,819,000 in respect of sub-underwriting commitments (2008: £3,155,000).

Contingent assets

As explained in the section of note 4 headed VAT on management fees, the Company may be able to recover further amounts of the VAT borne on management fees in past years. However, the Board considers that there are too many uncertainties for any reasonable estimate of the amounts potentially recoverable to be calculated.

Notes to the Financial Statements

continued

22 Related party transactions

Under the terms of an agreement dated 29 September 2006, the Company has appointed wholly owned subsidiaries of Henderson Global Investors (Holdings) plc ("Henderson") to provide investment management, accounting, administrative and company secretarial services. Henderson has contracted with BNP Paribas Securities Services SA (formerly BNP Paribas Fund Services UK Limited) to provide accounting and investment administration services.

Details of the fee arrangements for these services are given on page 13 in the Directors' Report. The management fees payable to Henderson under this agreement in respect of the year ended 31 May 2009 were £687,000 (excluding VAT) (2008: £1,156,000) of which £49,000 was prepaid at 31 May 2009 (2008: £86,000). With effect from 1 October 2007 VAT is no longer payable on management (including performance) fees.

No performance fee was payable to Henderson in respect of the year ended 31 May 2009 (2008: £nil).

In addition to the above services, Henderson has provided the Company with marketing services. The total fees paid or payable for these services for the year ended 31 May 2009 amounted to a write-back of £10,000 (excluding VAT) (2008: a charge of £16,000), of which £3,000 was outstanding at 31 May 2009 (2008: £8,000).

The compensation payable to key management personnel in respect of short term employment benefits was £95,614 (2008: £92,500). In practice this disclosure relates wholly to the fees of £95,614 payable to the directors in respect of the year (2008: £92,500); the directors are all non-executive and receive no other compensation. The Directors' Remuneration Report on pages 18 and 19 provides details. The Company has no employees.

23 Segment reporting

Geographical segment

The Board considers the primary reporting segment to be geographical. The Company's investment objective is to maximise shareholders' total returns by investing in smaller companies that are quoted in the United Kingdom. Because almost all the Company's investments are United Kingdom companies that are quoted in London, the Board does not consider that any further analysis by geography would provide meaningful information.

Business segment

The Board considers the secondary reporting segment to be the Company's activity as an investment trust company. This activity is the Company's single business segment. The Company's sole subsidiary undertaking is inactive and the Board does not consider that any further analysis by business activity would provide meaningful information.

Notice of Annual General Meeting

Notice is hereby given that the one hundred and twenty first Annual General Meeting of The Henderson Smaller Companies Investment Trust plc ("the Company") will be held at 201 Bishopsgate, London EC2M 3AE on Friday 2 October 2009 at 11.30 a.m. for the following purposes:

Ordinary Business

1 To receive the directors' report and the audited accounts for the year ended 31 May 2009.

2 To receive and approve the directors' remuneration report for the year ended 31 May 2009.

3 To approve a final dividend of 3.00p per ordinary share.

4 To approve a special dividend of 2.60p per ordinary share.

5 To re-elect Mr J D Fishburn as a director of the Company.

6 To re-elect Mr K E Percy as a director of the Company.

7 To re-appoint PricewaterhouseCoopers LLP as the auditors of the Company.

8 To authorise the directors to determine the auditors' remuneration.

Special Business

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

as a Special Resolution

9 THAT the Company be and is hereby authorised in accordance with section 694 of the Companies Act 2006 ("the Act") to purchase (within the meaning of section 693 of the Act) the preference stock units of £1 each in the capital of the Company (prior to 1 May 1999, the 4½ per cent cumulative preference stock units of £1 each in the capital of the Company) (the "Preference Stock") pursuant to contracts arising from acceptance of the offer to purchase Preference Stock made by the Company on the terms described in the Circular to holders of ordinary shares and Preference Stock dated 24 February 1999, such authority to expire at the conclusion of the annual general meeting of the Company in 2010 or, if sooner, 18 months from the date of the passing of this resolution.

as a Special Resolution

10 THAT the Company be and is hereby generally and unconditionally authorised in accordance with section 701 of the Companies Act 2006 ("the Act") to make market purchases (within the meaning of section 693 of the Act) of ordinary shares of 25p each in the capital of the Company ("Ordinary Shares"), provided that:

(a) the maximum number of Ordinary Shares hereby authorised to be purchased shall be 11,268,027 (or, if less, the number representing 14.99 per cent of the Ordinary Shares at the date of passing of this resolution);

(b) the minimum price (exclusive of expenses) which may be paid for an Ordinary Share is 25p;

(c) the maximum price (exclusive of expenses) which may be paid for an Ordinary Share is an amount equal to 105 per cent of the average middle market quotations for an Ordinary Share taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Ordinary Share is purchased, or such other amount as may be specified by the UK Listing Authority from time to time;

(d) the authority hereby conferred will expire at the conclusion of the annual general meeting of the Company in 2010 or 18 months from the date of the passing of this resolution if earlier unless such authority is renewed prior to such time; and

(e) the Company may make a contract to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of Ordinary Shares pursuant to any such contract.

By order of the Board
G S Rice
For and on behalf of Henderson Secretarial Services Limited, Secretary
30 July 2009

Registered Office:
201 Bishopsgate
London EC2M 3AE

Notice of Annual General Meeting
continued

Explanatory Notes
As a shareholder, you have the right to attend, speak and vote at the forthcoming Annual General Meeting or at any adjournment(s) thereof. In order to exercise all or any of these rights you should read the following explanatory notes to the business of the Annual General Meeting.

Resolutions 1 to 8 are proposed as ordinary resolutions. This means that for each of those resolutions to be passed, more than half of the votes cast must be in favour of the resolution. Resolutions 9 and 10 are proposed as special resolutions. This means that for each of those resolutions to be passed, at least three-quarters of the votes cast must be in favour of the resolution.

1. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those shareholders registered on the Register of Members of the Company as at close of business on Wednesday 30 September 2009 (or in the event that the meeting is adjourned, only those shareholders registered on the Register of Members of the Company as at close of business on the day which is two days prior to the adjourned meeting) shall be entitled to attend in person or by proxy and vote at the Annual General Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the Register of Members after that time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

2. A member entitled to attend and vote at this meeting may appoint one or more persons as his/her proxy to attend, speak and vote on his/her behalf at the meeting. A proxy need not be a member of the Company. If multiple proxies are appointed they must not be appointed in respect of the same shares. To be effective, the enclosed form of proxy, together with any power of attorney or other authority under which it is signed or a certified copy thereof, should be lodged at the office of the Company's Registrar, Computershare Investor Services PLC, The Pavilions, Bridgewater Road, Bristol, BS99 6ZY, not later than 48 hours before the time of the meeting. The appointment of a proxy will not prevent a member from attending the meeting and voting in person if he/she so wishes. A member present in person or by proxy shall have one vote on a show of hands and on a poll every member present in person or by proxy shall have one vote for every ordinary share of which he/she is the holder.

   In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the vote or votes of the other joint holder or holders, and seniority shall be determined by the order in which the names of the holders stand in the register.

   Any question relevant to the business of the Annual General Meeting may be asked at the meeting by anyone permitted to speak at the meeting. You may alternatively submit your question in advance by letter addressed to the Company Secretary at the registered office.

3. A person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

4. The statements of the rights of members in relation to the appointment of proxies in Notes 2 and 3 above do not apply to a Nominated Person. The rights described in those Notes can only be exercised by registered members of the Company.

5. A corporate member is entitled to appoint one or more persons to act as its representative or representatives at any meeting of the Company. Such representatives are entitled to attend and vote, in accordance with section 323 of the Companies Act 2006.

6. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for this meeting and any adjournment(s) thereof by utilising the procedures described in the CREST manual, which is available to download from the Euroclear website, **www.euroclear.com/CREST**. CREST personal

Notice of Annual General Meeting

continued

members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, in order to be valid, must be transmitted so as to be received by the Company's agent (ID number 3RA50) by the latest time for receipt of proxy appointments specified in Note 1 above. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

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

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

7. Section 319A of the Companies Act 2006 requires the Company to cause to be answered any question relating to the business being dealt with at the meeting put by a member attending the meeting. However, no such answer need be given (a) if to do so would interfere unduly with the preparation of the meeting or involve the disclosure of confidential information; (b) if the answer has already been given on a website in the form of an answer to a question ; or (c) if it is undesirable in the best interests of the Company or the good order of the meeting that the question be answered.

   Members satisfying the thresholds in section 527 of the Companies Act 2006 can require the Company to publish a statement on its website setting out any matter relating to (a) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the meeting; or (b) any circumstances connected with an auditor of the Company ceasing to hold office since the last Annual General Meeting, that the members propose to raise at the meeting. The Company cannot require the members requesting the publication to pay its expenses. Any statement placed on the website must also be sent to the Company's auditors no later than the time it makes its statement available on the website. The business which may be dealt with at the meeting includes any statement that the Company has been required to publish on its website.

8. By attending the meeting, members and their proxies and representatives are understood by the Company to have agreed to receive any communications relating to the Company's shares made at the meeting.

9. A copy of the Notice of Annual General Meeting, including these explanatory notes, is included on the Company's website, **www.hendersonsmallercompanies.com**

10. As at 29 July 2009 (being the last practicable date prior to the publication of this notice) the Company's issued share capital consisted of 75,170,296 ordinary shares carrying one vote each. Therefore the total voting rights as at 29 July 2009 were 75,170,296.

General Shareholder Information

Release of results
Half year results are announced in January. Full year results are announced in late July or early August.

AGM
The annual general meeting is held in London in late September or early October.

Dates of dividend and interest payments
Ordinary shares: final dividend announced in late July or early August and paid in October.

10½ per cent debenture stock 2016: interest paid on 31 May and 30 November.

Final dividend warrants and tax vouchers
Dividend warrants and tax vouchers for the 2009 final dividend and special dividend will be posted on 7 October 2009 to shareholders on the register on 11 September 2009. The dividends will be paid on 9 October 2009, subject to approval at the AGM.

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

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

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

SEDOL number
The SEDOL (London Stock Exchange Daily Official List) number of the Company's shares is 0906506. The mnemonic is HSL.

Disability Act
Copies of this annual report and other documents issued by the Company are available from the Company Secretary. If needed, copies can be made available in a variety of formats, including Braille, audio tape or larger type as appropriate.

You can contact the Company's Registrar, Computershare Investor Services PLC, which has installed textphones to allow speech and hearing impaired people who have their own textphone to contact them directly, without the need for an intermediate operator, by dialling 0870 702 0005. Specially trained operators are available during normal business hours to answer queries via this service.

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

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

Those who invest through the Halifax Share Dealing Account or ISA receive all shareholder communications. A form of instruction is provided to facilitate voting at general meetings of the Company.

History
The Company was incorporated under the Companies Acts 1862 to 1886 on 16 December 1887 with the name of The Trustees, Executors and Securities Insurance Corporation, Limited. The name was changed in August 1917 to The Trustees Corporation Limited, in April 1982 to TR Trustees Corporation PLC, in October 1990 to TR Smaller Companies Investment Trust PLC and in September 1997 to The Henderson Smaller Companies Investment Trust plc. Whilst the Trustee Department operated until June 1978, the principal business of the Company has been that of an investment trust company.

Directors and other Information

Directors
J D Fishburn *(Chairman)*
S M Davis *(Chairman of the Audit Committee)*
J J Nelson *(Senior Independent Director)*
K E Percy
M A Sieghart

Manager
Henderson Global Investors Limited,
represented by N M Hermon

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

Company Secretary
Henderson Secretarial Services Limited,
represented by G S Rice ACIS

Registered Office
201 Bishopsgate
London EC2M 3AE
Telephone: 020 7818 1818

Registered Number
Registered in England and Wales as an investment company
No. 25526

Registrar
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ
Telephone: 0870 703 0194

Independent Auditors
PricewaterhouseCoopers LLP
Hay's Galleria
1 Hay's Lane
London SE1 2RD

Solicitors
Slaughter and May
One Bunhill Row
London EC1Y 8YY

Broker
Collins Stewart Europe Limited
9th Floor
88 Wood Street
London EC2V 7QR

Custodian
JPMorgan Chase Bank, N.A.
125 London Wall
London EC2Y 5AJ

aic
The Association of
Investment Companies

Contents

Warning to Shareholders

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

Please note that it is very unlikely that either the Company or the Company's Registrar, Computershare Investor Services PLC, would make unsolicited telephone calls to shareholders and that any such calls would relate only to official documentation already circulated to shareholders and never in respect of investment 'advice'.

If you are in any doubt about the veracity of an unsolicited phone call, please call either the Company Secretary or the Registrar at the numbers provided on page 52.

The Henderson Smaller Companies Investment Trust plc is managed by

Henderson
Global Investors

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