The Henderson Smaller Companies Investment Trust plc

Report and Financial Statements for the year ended 31 May 2013

The Henderson Smaller Companies Investment Trust plc

Objective 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.

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 Index Numis 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

*until 28 March 2012, known as the Hoare Govett Smaller Companies Index (excluding investment companies). Prior to 1 June 2003 the benchmark was the FTSE SmallCap Index (excluding investment companies)

Financial Highlights

	31 May 2013	31 May 2012
Total net assets	**£403 million**	£280 million
Net asset value per ordinary share	**540.0p**	374.5p
Net asset value per ordinary share on an alternative basis*	**535.0p**	367.9p
Market price per ordinary share	**454.0p**	284.3p
Total return/(loss) per ordinary share	**171.0p**	(19.6)p
Revenue return per ordinary share	**6.2p**	6.1p
Dividend per ordinary share	**6.5p**	5.5p
Gearing†	**8.2%**	8.7%

*Calculated by deducting from the net assets the debt at its market value, as disclosed in note 20 on page 53.

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

Performance: comparative total return figures for periods ended 31 May 2013

	1 year %	**2 years %**	**3 years %**	**5 years %**	**10 years %**
The Henderson Smaller Companies Investment Trust plc:					
net asset value per share*	46.07(1)	39.19(1)	102.29(1)	82.77(2)	382.82(2)
The Henderson Smaller Companies Investment Trust plc: share price (2)	62.35	46.90	120.27	97.59	433.51
Numis Smaller Companies Index (excluding investment companies) (3)#	39.27	28.56	70.19	77.62	280.57
FTSE SmallCap Index (excluding investment companies) (3)	46.06	32.39	63.02	43.70	117.66
FTSE All-Share Index(3)	30.11	19.70	44.07	35.22	149.58

Sources: (1) Henderson Global Investors (2) Morningstar (3) Datastream;
The net asset value total return figures are calculated on the basis that the Company's issue of Debenture Stock is included at its par value, as in the financial statements that follow.

*The net asset value per share total return figures include an adjustment to reflect that since 2005 investments are valued at bid prices (i.e. at fair value) rather than at mid-market prices.

#Previously the Hoare Govett Smaller Companies Index (excluding investment companies).

Historical Record

Year end	**Market price per ordinary share in pence**	**Net asset value per ordinary share in pence***	**Revenue earnings per ordinary share in pence***	**Final dividend per ordinary share in pence**	**Special dividend per ordinary share in pence†**
31 May 2003	96.0	121.8	0.20	0.50	–
31 May 2004	134.8	172.1	1.17	1.00	–
31 May 2005	169.5	214.5	1.44	1.15	–
31 May 2006	232.8	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	2.20	1.60
31 May 2009	167.0	202.1	6.30	3.00	2.60
31 May 2010	216.0	277.1	4.59	3.60	–
31 May 2011	319.4	398.1	4.91	4.20	–
31 May 2012	284.3	374.5	6.07	5.50	–
31 May 2013	**454.0**	**540.0**	**6.24**	**6.50**	**–**

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

†In 2008 and 2009 the revenue earnings included the write-back of VAT borne on management fees in certain periods between 1990 and 2007 and the simple interest receivable on those refunds. Most of the amounts recognised were distributed by way of special dividends.

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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 56.

Chairman's Statement

Jamie Cayzer-Colvin

This year has been excellent for the Company and I am delighted to report that the net asset value (NAV) of the Company increased by 46.1% in the year on a total return basis and thus again outperformed its benchmark, the Numis Smaller Companies Index, by 6.8%.

I would like to thank all the Henderson staff and my Board for their efforts throughout the year on behalf of shareholders but in particular pay tribute to Neil Hermon. Last November marked his tenth anniversary as Fund Manager and I should like to repeat the thanks stated in my last interim statement and to congratulate him on his great success. Over the past ten years our net asset value total return has been 382.8% versus a total return from the Numis Smaller Companies Index (excluding investment companies) of 280.6%, the FTSE All-Share Index of 149.6% and the FTSE SmallCap Index of 117.7%. This is a compound annual return to shareholders of 17.1% and demonstrates that a long-term approach is the appropriate one to take when investing in smaller companies. It is also testimony to his great skill in picking undervalued stocks.

I am pleased to report that the Company's performance over the past year has been recognised with a number of awards. The Company won Best UK Smaller Companies Trust and Best UK Equity Trust for Savers and was highly recommended in the Best Large Trust category by Money Observer. The Company also won the award for Best UK Investment Trust by What Investment and Best UK Equity Growth Fund at the Investors Chronicle Fund awards. Furthermore, Neil was voted Investor of the Year at the Quoted Company Awards.

Revenue and dividend

The revenue return per share has remained relatively flat at 6.2p, compared with 6.1p for the previous year. However, we propose an increase in the final dividend for the year to 6.5p per share (2012: 5.5p). This is of course subject to shareholder approval at the Annual General Meeting in October. If approved this would be a 12-fold increase over these past 10 years, and a compounded annual growth rate of 29.2%. Since the year end, the Board has agreed a revision to the accounting policy and, with effect from 1 June 2013, all investment management fees and finance costs will be allocated 70% to the capital account and 30% to the revenue account, based on the Board's expected long-term split of total returns. Any performance fees will continue to be charged wholly to capital. This change in policy will enhance the Company's dividend-paying capability in future years.

Discount and Share buy-backs

During the year the smaller companies sector as a whole traded at an average discount of 14.1%, with highs and lows of 17.6% and 11.4% respectively. At the year end, the Company's shares traded at a discount of 15.9%. The Company's discount ranged from 12.8% to 23.6% with the average discount over the year being 18.3%. This offered a compelling investment opportunity and therefore we bought back 40,000 shares at an average discount of 22.1% and average price of 316.43p. This year we appointed Numis as the Company's new broker. An expressed remit of the appointment was to widen and diversify the shareholder base, which we believe could help narrow the discount; however, we accept that this will take time. The Board continues to keep a close eye on the discount and will from time to time buy back shares, even though we do not believe that share buy-backs have a significant effect on the discount other than in the short term.

Continuation

Our shareholders are asked every three years to vote for the continuation of the Company and a resolution to this effect will be put to the Annual General Meeting in October. Henderson Smaller Companies Investment Trust PLC has shown again that active investment management, well-executed within the transparent structure of an investment trust company, is a highly effective means of getting exposure to this class of equity. We are therefore recommending shareholders to vote for the Company to continue.

Regulatory

The Board has noted that the Alternative Investment Fund Managers Directive was written into UK legislation with effect from 22 July 2013. There is a one-year transition period within which the Company must comply with the provisions of the directive, which includes the appointment of an Alternative Investment Fund Manager ('AIFM') and an independent Depositary, who will provide an independent monitoring role to ensure the Company complies with the regulations. The Board has agreed in principle that Henderson will be appointed as the AIFM and has instructed them to take the necessary actions to ensure that all documentation and processes to enable the Company to comply with the regulations are in place within the transition period. A decision regarding the appointment of the Depositary will be taken in due course.

Outlook

The year under review has been an excellent one for equity markets and for the Company, which will be hard to repeat this year. Admittedly good news continues to flow from the corporate world, with corporate balance sheets strong, and earnings look set to see reasonable growth in the coming year. Governments, however, are still beset with seismic economic issues and political leadership is weak, which can only lead to market volatility as investors react and overreact to the news. Despite these problems, I believe the smaller companies market will Continue to produce exciting growth opportunities, so with the company's sound and disciplined approach of value investing, we can look forward to the coming year with confidence.

Annual General Meeting

Our Annual General Meeting will be held at 10:30am on Friday, 4 October 2013 at the Registered Office, 201 Bishopsgate, London EC2M 3AE. The Notice of Meeting is set out in the accompanying circular to shareholders. We would encourage as many shareholders as possible to attend for the opportunity to meet the Board and to watch a presentation from Neil Hermon reviewing the year and looking forward to the year ahead.

Board composition

James Nelson will be retiring from the Board at the AGM in October. I would like to take this opportunity to thank James, on behalf of the Board and shareholders, for his service to the Company over the past eleven years. I would also like to take this opportunity to welcome David Lamb to the Board, who was appointed on 1 August 2013.

J M B Cayzer-Colvin
Chairman
29 August 2013

Fund Manager's Review

Neil Hermon

Analysis of the portfolio by sector	31 May 2013 %	31 May 2012 %
Support Services	**19.4**	18.2
Electronic & Electrical Equipment	**11.7**	12.8
Media	**7.3**	6.7
Real Estate	**7.3**	4.6
Travel & Leisure	**7.0**	3.0
Financial Services	**7.0**	5.5
Household Goods & Home Construction	**5.7**	4.7
Software & Computer Services	**5.1**	7.8
Chemicals	**3.9**	7.3
Oil & Gas Producers	**3.7**	5.5
Construction & Materials	**3.4**	3.3
Aerospace & Defence	**3.1**	3.1
General Retailers	**2.8**	3.3
Industrial Engineering	**2.8**	3.8
Technology Hardware & Equipment	**2.6**	3.2
Health Care Equipment & Services	**2.0**	1.7
Oil Equipment, Services & Distribution	**2.0**	2.4
Pharmaceuticals & Biotechnology	**1.6**	0.5
Personal Goods	**0.7**	–
Mobile Telecommunications	**0.4**	–
Mining	**0.3**	1.5
Food Producers	**0.2**	0.2
Industrial Metals & Mining	**–**	0.6
General Industrials	**–**	0.3
	100.0	100.0

Market – year in review

The year under review was an excellent one for equity markets. The FTSE All-Share Index rose in every month of the year. This positive performance was due to the actions of the European Central Bank to resolve the Eurozone crisis, loose monetary policies from developed world Central Banks, a marginally improving global macro-economic situation and the relative attractiveness of equities over other asset classes. Additionally the fundamentals of the corporate sector continued to improve. Companies further increased their profits enabling dividends to grow. Balance sheets remained strong. Mergers and acquisition activity, however, remained subdued as management teams were unwilling to take on financial leverage in the face of economic uncertainty.

Smaller companies materially outperformed larger companies over the year. The Numis Smaller Companies Index (excluding investment companies) has now outperformed the FTSE All-Share Index for the last five years consecutively (and in twelve of the last thirteen years).

Fund performance

The Company had a very strong year in performance terms – outperforming its benchmark and rising substantially in absolute terms. The net asset value rose 46.1%, on a total return basis. This compares to a rise of 39.3% (total return) from the Numis Smaller Companies Index (excluding investment companies) and 46.1% (total return) from the FTSE Small Cap Index (excluding investment companies). The outperformance came from a combination of underlying positive portfolio performance and a positive contribution from gearing in the Company, which can be seen in the attribution analysis on page 16. The year under review is the ninth year of outperformance of our benchmark, the Numis Smaller Companies Index (excluding investment companies), in the last ten years.

Gearing

Gearing started the year at 8.7% and ended it at 8.2%. The majority of the gearing is provided by the £20 million 10.5% 2016 Debenture with the remainder by short term bank borrowings. Gearing was a positive contributor to performance in

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the year as markets rose and has been a significant positive over the 10 years I have managed the investment portfolio.

Attribution analysis

The tables below show the top five contributors to, and the bottom five detractors from, the Company's relative performance.

Principal contributors	12 month return %	Relative contribution %
WSP	+67.2	+1.8
Taylor Wimpey	+134.5	+1.2
Ashtead	+177.5	+1.2
Bellway	+88.3	+0.7
New Britain Palm Oil*	-40.3	+0.6

*Included in the benchmark index but not owned by the Company.

WSP is an international engineering consultant, principally in the built environment. WSP was a long standing investment in our portfolio but had struggled in recent years as investors were frustrated by the lack of profit progress, the uncertain outlook for growth and the cut-backs in UK Government spending. We continued to hold the company as we felt that although trading conditions were tough, recovery potential was significant and there was a high chance of the company being acquired in a consolidating global industry. This patience paid off as WSP was acquired for a near 70% premium by the Canadian company, Genivar, in July 2012.

Taylor Wimpey is a national UK housebuilder. From the depths of the housing downturn in 2007/08 Taylor Wimpey has made an impressive recovery. It has strengthened it's over leveraged balance sheet through the sale of the company's US operation and by raising money through a rights issue. Financial returns have been improving through the acquisition of higher margin land and cost reductions in the building process. The share price performance in the last year has been further helped by strong growth in profitability and a market re-rating of the housebuilding sector. Recent Government initiatives are helping to further boost prospects for the UK housing market and transaction levels and prices are set to rise further.

Ashtead is a plant hire company with operations in the UK and US. The key driver for the company, however, is its US operations which account for over 95% of its profitability. Plant hire is a notoriously cyclical industry and Ashtead suffered badly in the downturn of the US construction markets post the credit crunch. Since then Ashtead has made an impressive recovery aided by a structural shift in the US market from construction companies renting their plant fleet rather than owning it. Additionally Ashtead has taken market share from smaller competitors who have struggled to raise bank finance to invest in their hire fleet. These trends have meant profitability has expanded rapidly. With US construction markets showing signs of recovery the outlook for Ashtead remains strong.

Bellway is also a national UK housebuilder. Much of the commentary on Taylor Wimpey applies equally to Bellway. Bellway went into the downturn with a much stronger balance sheet than Taylor Wimpey and therefore its share price downturn and subsequent recovery has been less dramatic. Nevertheless the last year has been an excellent one for Bellway and with a strong landbank, an ungeared balance sheet and strong management team the prospects for the company are bright.

New Britain Palm Oil is a producer of palm oil. The shares have been poor performers in the year as production difficulties and a weak palm oil price have impacted profitability. The Company has no holding in New Britain Palm Oil.

Principal detractors	12 month return %	Relative contribution %
e2v Technologies	-6.2	-1.2
Rockhopper Exploration	-56.2	-0.5
Dixons Retail*	+191.6	-0.5
Barratt Developments*	+166.7	-0.5
Melrose Industries	+11.6	-0.5

*Included in the benchmark index but not owned by the Company.

e2v Technologies manufactures high technology electronic components. After enjoying a strong recovery from the last recession the company has had a tough last 12 months. Profitability has not been as strong as expected due to weakness in industrial end markets, a downturn in US defence spending, a delay in a project with the mining giant Rio Tinto and delivery issues with a number of its space projects. Although e2v is a company with significant technology and high margins it has struggled to deliver consistent growth. This has led to a below market valuation for the business. There is significant pressure building on the management team to find a solution to this problem and the recent appointment of a new chairman will hopefully accelerate this process.

Rockhopper Exploration is an oil and gas exploration company focusing on the Atlantic Basin to the north of the

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Falkland Islands. The company made a major discovery in 2010 and its share price rose substantially. Last year it successfully 'farmed down' its position in the Sea Lion discovery to Premier Oil, thereby reducing its commitment and cost in developing the field. However, given the long term nature of oil development, with first production not till 2017, the lack of exploration activity and negative market sentiment towards junior oil and gas companies have meant the share price has performed poorly. Going into 2014 exploration activity is likely to re-commence which should re-ignite interest in the company.

Dixons Retail is an electrical retailer. The market in which it operates is fiercely competitive. New competitors, like Amazon, and other internet retailers have driven prices and margins down over the last few years. In the last year Dixons has benefited from capacity withdrawal from the market as the likes of Comet and Best Buy have exited the UK. The Company has no holding in Dixons Retail.

Barratt Developments is a national UK housebuilder. Like Taylor Wimpey and Bellway the company has benefited from a recovery in the UK housing market over the last year. The Company has no holding in Barratt Developments.

Melrose Industries is a diversified engineering group. Its raison d'etre is to acquire under-performing companies and then turn round their performance through the application of strict financial controls, better management practices and investment in growth areas leading to significant expansion in margins and cash generation. When this has been achieved and significant value created Melrose will sell the business on to a trade or private equity buyer. This has been done to great effect with the acquisitions of Dynacast, McKechnie, FKI and more recently Elster. After a very strong 2011/12 Melrose had a relatively weaker 2012/13 due to profit taking, indigestion around the rights issue to fund the acquisition of Elster and some weakness in its power generation end markets.

Portfolio activity

Trading activity in the portfolio was consistent with an average holding period of five years. Our approach 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 strengths. Likewise we have been employing strong sell discipline to cut out stocks that fail to meet these criteria.

In the year we have added a number of new positions to our portfolio. We increased our exposure to the travel and leisure sector. In the past few years we had a very under-weight position in this area as we were concerned by the pressure on UK consumers' net disposable income and the effect this would have on consumer spending. This strategy has added significant relative value. However as the UK economy has started to show signs of improvement we felt it would be appropriate to add to our weighting. Acquisitions included Cineworld, a leading operator of cinemas, and Thomas Cook, the leading tour operator business.

Other new additions to our portfolio included:

Dechra is an international veterinary pharmaceutical business. Dechra has a very strong track record over the last ten years driven by a combination of acquisition and organic growth. The company has diversified internationally from UK origins to now having a strong presence in Europe and US whilst reducing its exposure to the low margin distribution business. The future looks bright with prospects boosted by a growing market and a range of new drugs expected to be launched over the coming years.

Hays is a leading international recruitment consultant. Recruitment is an activity which is closely linked to economic growth. With conditions in the global economy showing signs of improvement Hays is well placed to benefit. Additionally its German operations are benefiting from structural growth in temporary employment whilst the UK business has significant recovery potential from a cyclically depressed level.

Sherborne Investors is an investment vehicle fronted by Edward Bramson. He has built a reputation for taking a stake in an under-performing business, gaining management control and turning around its fortunes. In the UK he has had great success at 4Imprint, Elementis, Spirent and more recently F&C Asset Management. We backed his money making skills by investing in Sherborne B which has subsequently bought a stake in 3i, the private equity, infrastructure and debt management group.

Xaar is a digital ink jet printing business. The company supplies print heads and ink to industrial users who use these products for printing on glass, cardboard, ceramics, metals, paper and textiles. Xaar has had a phenomenal year, more than doubling its profits, on the back of rapid take-up in the ceramic market where its technology has revolutionised the market. This growth is likely to continue as to remain competitive ceramic tile

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manufacturers need to adopt Xaar print head technology. Longer term there is a good chance that other industries could follow the ceramics market.

We invested in three IPOs (initial public offerings) in the year. These were – Clinigen, a fast growing provider of services to the pharmaceutical industry, Countrywide, a leading UK estate agency business that is poised to benefit significantly from the improvement in housing transactions, and HellermannTyton, a global manufacturer of cable management solutions.

To balance the additions to our portfolio we have disposed of positions in companies which we felt were set for poor price performance. We disposed of our holding in Goals Soccer Centres, the 5-a-side football operator, where a slowing roll-out of new centres and high debt mean profit progress is likely to be anaemic. We also disposed of our holding in London Mining, the West African iron ore miner, where the Marampa project has been beset by operational issues and a weak iron-ore price. Additionally we sold our small positions in Metminco, Avocet Mining and Bullabulling as we believe the prospects for junior miners is poor with weak commodity prices and a lack of finance for new projects.

A notable feature in the year was the sale of a number of investments where the company had been elevated into the FTSE 100 Index. These investments have proved to be very successful since acquisition and our job is to find alternative opportunities which will replicate their success. Disposals in this category include Aberdeen Asset Management, the fund manager, Babcock, the support services group, Croda, the speciality chemicals company, Melrose, the diversified engineering group, and Wood Group, the oil services company.

We benefited from a level of takeover activity in the year. The level was down on the previous year as the macro-economic uncertainty meant corporates were unwilling to be overly aggressive in leveraging their balance sheets to acquire competitors. Within our portfolio, takeover bids were received for WSP, an international engineering consultancy, from Genivar, and Nautical Petroleum, a North Sea oil and gas explorer, from Cairn Energy.

Portfolio outlook

The following table shows the Company's key stock positions versus the Numis Smaller Companies Index (excluding investment companies) at the end of May 2013.

Top ten active positions at 31 May 2013	Holding %	Index Weight %	Active Weight %
Taylor Wimpey	3.0	–	3.0
Informa	2.7	–	2.7
Spectris	2.7	–	2.7
Ashtead	2.5	–	2.5
Oxford Instruments	2.7	0.6	2.1
e2v Technologies	2.0	0.2	1.8
Rotork	1.8	–	1.8
Bellway	2.7	0.9	1.8
Interserve	2.1	0.4	1.7
Paragon	2.1	0.6	1.5

Brief descriptions of Taylor Wimpey, Ashtead, Bellway and e2v Technologies have been included earlier. A brief description of the remaining largest active positions follows:

Informa is a leading business to business information group. Its activities include the provision of academic journals, books, data services, trade exhibitions, conferences and training services. The company produced a very resilient profit performance during the downturn, helped by aggressive cost cutting. Additionally the balance sheet has been strengthened and the company is set for a return to growth in coming years. Given its low valuation, we believe the share price is set for further gains.

Spectris manufactures, designs and markets products for the electronic control and process instrumentation sectors. The company has a number of subsidiaries which tend to be market leaders in global market niches. Cash generation is very sound, the management team is well respected and the balance sheet is strong. Profit growth in recent years has been strong and although end markets in the short term have softened, longer term the company is well set for growth.

Oxford Instruments produces advanced instrumentation equipment for industrial and scientific research markets. The company has benefited from strong demand for its products, especially in the nanotechnology area which is an emerging area of research and is set to grow strongly in future years. The company has been substantially re-structured by its management team over recent years and is seeing strong

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growth in margins and profitability. Although in the coming year there are headwinds around the completion of profitable contracts and some weakness in industrial end markets, longer term the business is well positioned for superior growth.

Rotork designs and manufactures actuators and related products for use in the valve industry. Its products are principally used in the oil and gas, power and water industries. It is a global leader in its industry and has consistently grown market share through high levels of quality and investment in new product development. The company has a fantastic long term track record and has consistently grown faster than its peer group. Margins are high, the balance sheet is strong, sales exposure is geared towards growing industries and emerging economies and management are high quality. Although the shares are on a reasonably high valuation Rotork has and will continue to be a fantastic long term investment.

Interserve is an international construction and support services group operating principally in the UK and Middle East. The principal driver of the business is currently the UK support services operation where margins are rising from depressed levels. Additionally the UK construction activities are proving resilient in the face of tough market conditions and the Middle East is benefiting from economic growth. Interserve have strengthened their balance sheet in the last year by selling a large proportion of their PFI assets which has enabled the company to reduce its pension deficit and give the company substantial firepower for acquisitions.

Paragon is a provider of buy to let mortgages and consumer finance. The business environment for Paragon has noticeably improved in the last year. Funding markets have opened up and allowed Paragon to resume lending. The quality of the existing loan book remains very high with impairments at low levels. Paragon is also benefiting by buying, at attractive prices, parcels of loans from banks which need to de-gear their balance sheets. With the UK housing market strengthening the outlook for Paragon looks strong.

Market outlook

The year under review has been a very positive one for equity markets despite an uncertain global economic backdrop. These uncertain conditions remain in place with a slowing Chinese economy, most European economies in recession and the US still suffering the effects of sequestration. However at the margin conditions are arguably improving particularly in the US where a rise in the housing market is boosting consumer confidence.

The UK economy has shown at best minimal growth. The need to rein in public spending and reduce the public sector deficit has forced large cuts in government spending. This, combined with weak economies of our major trading partners in Europe, has dampened economic recovery. In this environment, with high unemployment, low wage growth and a rising cost of living, the resilience of the UK consumer is being tested and is making conditions for domestically focused businesses challenging. However, like the US, economic conditions are showing recent signs of improvement with the UK housing market starting to see a recovery in prices and transaction levels.

Another factor that the equity market will have to deal with in the coming year is the potential end or tapering of quantitative easing. This 'drug' of easy money is something the market has become reliant on over the last few years and it is unclear how it will react to its withdrawal. However, it is unlikely that this will happen until it is clear economic conditions are getting materially better.

Even after the rise in the last year, stock market valuations are still below historic standards and compare well to other asset classes. Corporate profitability has proved robust and earnings look set to see reasonable growth in the coming year. Mergers and acquisition activity however is currently subdued as management teams are unwilling to take on financial leverage in the face of economic uncertainty. An increase in M&A would be helpful for smaller companies in particular as mergers and acquisition activity tends to be focused in this area.

In conclusion, the year under review has been an excellent one for the equity market and the Company. Relative performance was strong and our portfolio companies have, overall, performed robustly. Our investments are generally trading well, are soundly financed and attractively valued. Additionally, the small company market continues to throw up exciting growth opportunities in which the Company can invest.

Neil Hermon
Fund Manager
29 August 2013

Investment Portfolio

at 31 May 2013

Company	Main activity	Valuation as at 31 May 2013 £'000	% of portfolio
Taylor Wimpey	***house building***	**12,889**	**2.95**
Bellway	***house building***	**11,940**	**2.74**
Informa	***business to business information***	**11,938**	**2.73**
Spectris	***electronic control and process instrumentation***	**11,896**	**2.72**
Oxford Instruments	***advanced instrumentation equipment***	**11,882**	**2.72**
Ashtead	***plant hire***	**10,916**	**2.50**
Intermediate Capital	***mezzanine finance***	**10,062**	**2.31**
Victrex	***speciality chemicals***	**9,361**	**2.14**
Senior	***aerospace and automotive products***	**9,330**	**2.14**
Paragon	***buy to let mortgage provider***	**9,172**	**2.10**
10 largest		**109,386**	**25.05**
Interserve	*international contractor*	8,987	2.06
e2v Technologies	*electronic components*	8,899	2.04
WS Atkins	*engineering consultancy*	8,013	1.83
Restaurant Group	*restaurants*	7,829	1.79
Rotork	*process control solutions*	7,722	1.77
Domino Printing Sciences	*industrial printing equipment*	7,208	1.65
Howden Joinery	*kitchen manufacturer and retailer*	7,026	1.61
Grainger	*residential property investor*	6,945	1.59
LSL Property Services	*retail property investor*	6,840	1.57
Playtech	*internet gaming software*	6,757	1.55
20 largest		185,612	42.51
AZ Electronic Materials	*speciality chemicals*	6,338	1.45
Filtrona	*speciality plastic and fibre producer*	6,135	1.41
Northgate	*commercial vehicle hire*	5,979	1.37
Anite	*telecom software*	5,856	1.34
Thomas Cook	*tour operator*	5,783	1.32
Renishaw	*precision measuring and calibration equipment*	5,775	1.32
Premier Oil	*oil and gas exploration and production*	5,668	1.30
Perform	*online media information*	5,568	1.28
John Menzies	*news distributor and aviation services*	5,452	1.25
Fidessa	*financial software*	5,170	1.18
30 largest		243,336	55.73
Carphone Warehouse	*mobile telephone retailer*	5,151	1.18
*Tyman	*construction and materials*	5,022	1.15
Dunelm	*homewares retailer*	5,018	1.15
Aveva Group	*design software*	4,836	1.11
Greene King	*pub operator*	4,785	1.09
Euromoney Institutional Investor	*business to business information*	4,757	1.09
Jupiter Fund Management	*investment management company*	4,645	1.06
Hunting	*oil equipment and services*	4,562	1.04
Fenner	*industrial engineering*	4,485	1.03
Hays	*business training and employment agencies*	4,319	0.99
40 largest		290,916	66.62

Investment Portfolio

at 31 May 2013 continued

Company	Main activity	Valuation as at 31 May 2013 £'000	% of portfolio
*RWS	*patent translation services*	4,286	0.98
SIG	*builders merchant*	4,238	0.97
ITE Group	*exhibition organiser*	4,157	0.95
Ultra Electronic Holdings	*specialist defence contractor*	4,131	0.95
CSR	*semi conductors*	4,085	0.94
Capital Regional	*retail property investor*	4,047	0.93
Hellermann Tyton	*electrical components and equipment*	3,763	0.86
Shaftesbury	*property investor*	3,693	0.85
Synergy Healthcare	*healthcare support services*	3,691	0.84
Afren	*oil and gas production and exploration*	3,641	0.83
50 largest		330,648	75.72
Balfour Beatty	*international contractor*	3,613	0.83
Countrywide	*real estate services*	3,557	0.82
Keller	*ground engineering*	3,555	0.81
Kentz	*oil and gas contractor*	3,469	0.80
Tribal Group	*education support services and software*	3,465	0.79
Laird	*electronic products*	3,370	0.77
Ted Baker	*clothing retailer*	3,334	0.76
St Modwen Properties	*real estate holding and investment*	3,133	0.72
NCC	*IT security*	3,119	0.71
Chime Communications	*media agencies*	3,070	0.70
60 largest		364,333	83.43
NMC Health	*healthcare provider*	3,004	0.69
F & C Asset Management	*investment management company*	2,842	0.65
Cineworld	*recreational services*	2,784	0.64
*Clinigen	*pharmaceutical services*	2,768	0.63
RPS Group	*business support services*	2,730	0.63
Ophir Energy	*oil and gas explorer*	2,687	0.62
Spirent Communications	*telecoms testing*	2,682	0.61
Speedy Hire	*tool hire*	2,674	0.61
Dechra Pharmaceuticals	*veterinary pharmaceuticals*	2,668	0.61
Hyder Consulting	*engineering consultancy*	2,652	0.61
70 largest		391,824	89.73
Costain	*contractor*	2,555	0.59
Spirit Pub	*pub operator*	2,546	0.58
Kofax	*electronic capture software*	2,369	0.54
Unite Group	*student accommodation investor*	2,276	0.52
Consort Medical	*healthcare products*	2,059	0.47
*WYG	*engineering consultancy*	1,972	0.45
*Majestic Wines	*wine retailer*	1,902	0.44
Premier Farnell	*industrial suppliers*	1,897	0.43
Rathbone Brothers	*private client asset management*	1,860	0.43
*LXB Retail Properties	*retail property investor*	1,794	0.41
80 largest		413,054	94.59

Investment Portfolio

at 31 May 2013 continued

Company	Main activity	Valuation as at 31 May 2013 £'000	% of portfolio
*Sherborne Investors	*investment company*	1,785	0.41
*Monitise	*mobile banking software*	1,743	0.40
*Abcam	*internet retailer of antibodies*	1,693	0.39
Xaar	*digital print technology*	1,630	0.37
*Digital Barriers	*digital security*	1,626	0.37
Heritage Oil	*oil and gas exploration and production*	1,525	0.35
Mears	*business support services*	1,385	0.32
Elementis	*speciality chemicals*	1,176	0.27
Kenmare Resources	*titanium dioxide mining*	1,166	0.27
*IQE	*semiconductor manufacturer*	1,094	0.25
90 largest		427,877	97.99
Moneysupermarket	*price comparison website*	1,088	0.25
*Faroe Petroleum	*oil and gas exploration and production*	1,016	0.23
RM	*education software*	976	0.22
Tarsus Group	*exhibition organiser*	914	0.21
Brammer	*industrial suppliers*	869	0.20
*Rockhopper Exploration	*oil and gas exploration*	860	0.20
*Next Fifteen Communications	*PR and media services*	853	0.20
*Providence Resources	*oil and gas exploration*	827	0.19
*Asian Plantations	*palm oil plantations*	761	0.17
*Enteq Upstream	*oil equipment and services*	618	0.14
100 largest investments		436,659	100.00
Total investments		**436,659**	**100.00**

There were no convertible or fixed interest securities at 31 May 2013.

*quoted on the Alternative Investment Market.

Directors


Jamie Cayzer-Colvin


James Nelson


Keith Percy


David Lamb


Mary Ann Sieghart


Beatrice Hollond

J M B Cayzer-Colvin (Chairman), Jamie joined the Board in May 2011 and was appointed as Chairman on 30 September 2011. He is an executive director of Caledonia Investments plc and among other appointments, he is a director of Polar Capital Holdings plc and the India Capital Growth Fund Limited plus a number of unquoted companies and charities.

J J Nelson, James joined the Board in 2002. He is the Company's Senior Independent Director. He was formerly an executive partner of Graphite Capital, a director of Intermediate Capital Group PLC and is a former chairman of the BVCA. He is a director of Aurora Investment Trust plc and Syncora Guarantee (UK) Limited.

K E Percy, Keith joined the Board in 2006. He is chairman of Brunner Investment Trust plc and a director of JPMorgan Japanese Investment Trust plc, Standard Life Equity Income Trust plc and F&C Asset Management plc.

D Lamb, David was appointed to the Board on 1 August 2013. He is Managing Director of St James's Place plc. He is a member of the Investment Committee and a Trustee of the St. James's Place Foundation. David is also a Director of the Association of Private Client Investment managers and Stockbrokers and a member of the Council for the CBI (South West).

M A Sieghart, Mary Ann joined the Board in July 2008. She was assistant editor of The Times from 1998 to 2007. She is also a former city editor and Lex columnist. She chairs the Social Market Foundation, sits on the council of Tate Modern and the advisory council of Into University and is a trustee of the Radcliffe Trust and a non-executive director of DLN Digital Limited. She writes occasional columns for The Independent and presents programmes on Radio 4.

B Hollond, Beatrice joined the Board in July 2010 and became Chairman of the Audit Committee on 24 September 2010. She is deputy chairman of Millbank Financial Services Limited, an independent family office, and chairman of Millbank Investment Management Limited, its investment management subsidiary. She is chairman of Keystone Investment Trust plc and a director of ORA Capital Partners Limited and Oldfield & Co. (London) Limited. Among other appointments she is a trustee of the Esmée Fairbairn Foundation, chairman of the Institute for Philanthropy and chairman of the Investment Committee, and an advisory fellow of Pembroke College, Oxford.

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

B Hollond chairs the Audit Committee, the other members of which are J J Nelson, K E Percy, M A Sieghart and D Lamb.

Management


Neil Hermon

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.

Henderson Secretarial Services Limited, acts as the corporate company secretary.

Directors' Report

The directors present the audited financial statements of the Company and the report for the year ended 31 May 2013.

The directors believe that this Annual Report and Financial Statements presents a balanced and understandable assessment of the Company's position and the prospects.

Business Review

The business review seeks primarily to provide information about the Company's business, its principal risks and uncertainties and its results for the year ended 31 May 2013. It should be read in conjunction with the Chairman's Statement on page 3 and the Fund Manager's Review on pages 4 to 8, which reviews the investment activity in the year and the outlook for the portfolio.

a) Status

The Company is incorporated in England and Wales under registration number 25526, and domiciled in the United Kingdom. The Company traded throughout the year and was not dormant. 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 1158 of the Corporation Tax Act 2010 ("Section 1158"). The Company is subject to the UK Listing Authority's Listing Rules and is governed by its articles of association, amendments to which must be approved by shareholders by way of a special resolution. The Company is not a close company.

The Company was required to seek approval from HM Revenue & Customs ("HMRC") of its status as an investment trust under Section 1158 every year up to and including the year ended 31 May 2012 and such approval was granted. From 1 June 2012 approval is by way of a one-off application for investment trust status, for which approval has been granted. The Directors are of the opinion that the Company will continue to conduct its affairs in a manner that will enable it to continue to hold such approval. Approval as an investment trust allows the Company to analyse its income between revenue, which is available for distribution by way of dividends, and capital, which it is prohibited from distributing other than by way of share buy-backs by its articles of association. The Company is liable to corporation tax on its net revenue profits but is exempt from corporation tax on capital gains if it has complied at all times with Section 1158.

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

b) 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. The benchmark is the Numis Smaller Companies Index (excluding investment companies) (previously called the Hoare Govett Smaller Companies Index). 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. Once a portfolio company enters the FTSE 100 Index the Fund Manager has, in normal circumstances, six months to sell the position.

c) 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.

Diversification

The Company maintains a diversified portfolio, which is detailed on page 4 and pages 9 to 11. The portfolio is actively managed by the Manager (Henderson Global Investors Limited), 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% 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% of an investee company's equity. The Board may give approval to the Manager to exceed these limits to as far as 10% and 20% 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% of the value of shareholders' funds.

General

In accordance with the Listing Rules of the UK Listing Authority, the Company will not invest more than 15% of its

Directors' Report

continued

gross assets in the shares of other listed closed-ended investment funds, including investment trusts, and will not invest more than 10% of its gross assets in companies that themselves may invest more than 15% of their gross assets in listed closed-ended investment funds.

d) 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 2013.

e) 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 10.5% Debenture Stock, repayable in 2016) and short term borrowings (drawn down from facilities provided by National Australia Bank with a current capacity of £20 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.

f) Performance measurement and key performance indicators

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

Performance measured against the benchmark

The Board reviews, at each of its meetings, the performance of the portfolio, the net asset value per share ('NAV') and the share price and compares them with the performance of the Company's benchmark.

Discount to the net asset value per share

The Board monitors the level of the discount to the NAV at which the Company's shares trade and reviews the average discount for the Company's relevant AIC (Association of Investment Companies) sector (the UK Smaller Companies sector). The Board considers whether to use share buy-backs to enhance shareholder value. Shares are only bought back at a price below the prevailing NAV, thereby increasing the NAV for the remaining shareholders. The Company publishes a NAV figure on a daily basis, through the official newswire of the London Stock Exchange. This figure is calculated in accordance with the AIC formula (and since 1 June 2008 includes current financial year revenue items).

Performance measured against the Company's peer group

The Company is included in the AIC's UK Smaller Companies sector, which represents the Company's peer group. In addition to comparison against the benchmark, the Board also considers the performance against the peer group.

Ongoing charges

Ongoing charges are those expenses of a type which are likely to recur in the foreseeable future, whether charged to capital or revenue, and which relate to the operation of the investment company as a collective fund, excluding the costs of acquisition or disposal of investments, financing charges and gains or losses arising on investments. Ongoing charges are based on actual costs incurred in the year as being the best estimate of future costs. The Board reviews the ongoing charges and monitors the expenses incurred by the Company.

The Company previously applied a Total Expense Ratio; under recommendation of the AIC the terminology and methodology has been changed to ensure consistency of approach and calculation across the investment company sector and UCITS funds.

g) Principal 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

Directors' Report

continued

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 follows.

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 and the companies in its peer group; it may also result in the Company's shares trading at a wider discount to the net asset value per share. 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 analysis. 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.

Accounting, legal and regulatory

In order to qualify as an investment trust the Company must comply with section 1158 of the Corporation Tax Act 2010, to which reference is made on page 13 under the heading 'Status'. A breach of section 1158 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 1158 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 2006 ('the Companies Act'), 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 and Transparency Rules and the Prospectus Rules ('UKLA Rules'). A breach of the Companies Act 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 1158. The Board relies on its Company Secretary and its professional advisers to ensure compliance with the Companies Act 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 18 to 24.

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. 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 instruments and the management of risk

By its nature as an investment trust, the Company is exposed in varying degrees to market risk (comprising market price risk, currency risk and interest rate risk), liquidity risk and credit and counterparty risk. An analysis of these financial risks and the Company's policies for managing them are set out in note 16 on pages 48 to 52.

h) Financial review

Capital

At 31 May 2013 the Company had in issue 74,701,796 ordinary shares of 25p each. The market price per share at that date was 454.0p, giving the Company a market

Directors' Report

continued

capitalisation of £339.1 million. Total equity equalled £403.4 million, the NAV being 540.0p per share. Accordingly, the market price per share stood at a discount of 15.9% to the NAV. The Company seeks annual shareholder authority to buy back its shares in the market for cancellation. During the year the Company bought back 40,000 of its ordinary shares (2012: 165,000) this represented 0.05% of the called up share capital. The aggregate consideration paid for the shares repurchased was £120,000. Since the year end no further shares have been purchased.

Performance

The Company had a strong year in terms of performance, rising substantially in absolute terms. The stock market rose over the year and, because of good stock selection, and the positive effects of gearing, the Company outperformed its benchmark on a total return basis.

On a total return basis the benchmark index increased by 39.3% over the year ended 31 May 2013 (2012: fell by 7.7%). By comparison the Company's net asset value total return was 46.1% (2012: fell by 5.2%).

Performance attribution

	Year ended 31 May 2013
Net asset value per share total return	46.1
Benchmark total return	39.3
Relative performance	**6.8**
Made up:	
Stock selection	5.5
Gearing	2.4
Share buy backs	0.0
Expenses	-1.1
	6.8

Notes:

1. The benchmark is the Numis 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 2012 (374.5p) and the net asset value per share at 31 May 2013 (540.0p).

Assets

The Company's net assets increased during the year from £280 million to £403 million. The net asset value per ordinary share increased during the year from 374.5p to 540.0p.

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 £2,235,000, the management fee was £1,206,000 and other expenses totalled £489,000. These figures include VAT where applicable.
A performance fee of £2.0 million is payable in respect of the year ended 31 May 2013. The transaction costs, which include stamp duty and totalled £435,000, are included within the purchase costs or netted against the sales proceeds of investments.

The ongoing charge is a measure of the Company's running costs as defined on page 14. For the year ended 31 May 2013, the ongoing charge is 0.50% (2012: 0.50% no performance fee was payable) and 1.07% including the performance fee.

Revenue and dividend

The Company's investment income and other revenue totalled £8,605,000 (2012: £8,231,000). After deducting expenses the revenue profit for the year was £4,661,000 (2012: £4,538,000).

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, taxation, management 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 necessarily related 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 6.5p per ordinary share (2012: 5.50p). Subject to approval at the Annual General Meeting, the final dividend will be paid on 11 October 2013 to shareholders on the register of members on 20 September 2013.

Donations

During the year the Company made charitable donations totalling £5,000 (2012: £5,000). No political donations were made (2012: £nil).

Directors' Report

continued

The Board supports a number of charities, all of which are personally selected on an annual basis by the directors. These charities span a variety of different causes including further education, working with under privileged and deprived children and young people, motor neurone disease and the rehabilitation of prisoners.

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 2013 (2012: none).

i) Going concern

The Company's shareholders are asked every three years to vote on the continuation of the Company. The next continuation vote will be put to shareholders at the forthcoming AGM in October 2013. The assets of the Company consist almost entirely of securities that are listed (or quoted on AIM) and, accordingly, the directors believe that the Company has adequate financial resources to continue in operational existence for the foreseeable future. For these reasons, the Board has decided that it is appropriate for the financial statements to be prepared on a going concern basis. In reviewing the position as at the date of this report, the Board has considered the guidance on this matter issued by the Financial Reporting Council.

j) 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 and the Manager. Although the Company invests in companies that are listed or quoted in the United Kingdom, the underlying businesses of those companies are affected by various 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.

k) 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, 2007 and 2010. A similar resolution will be put to the Annual General Meeting in October 2013 and the Board has no reason to believe that this resolution will not be passed. Accordingly, at every subsequent third Annual General Meeting thereafter, 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.

Directors

a) The directors

The directors of the Company, as shown on page 12, are Mr J M B Cayzer-Colvin, Mr J J Nelson, Mr K E Percy, Ms M A Sieghart, Mrs B Hollond and Mr D Lamb. All served throughout the year under review, with the exception of Mr D Lamb who was appointed on 1 August 2013.

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 or her 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, Mrs B Hollond will retire by rotation at the forthcoming Annual General Meeting and, being eligible, offers herself for re-election. The Board considers that Mrs Hollond should be re-elected because she brings wide, current and relevant business experience that allows her to contribute effectively to the leadership of the Company. Mr J J Nelson will retire and will not be seeking re-election at the forthcoming AGM after 11 years on the Board. The Board would like to thank Mr Nelson for his contribution to the Company during this time. Mr D Lamb was appointed as a Non-Executive Director of the Company on 1 August 2013. He will therefore stand for election as a Director at the forthcoming AGM.

Directors' Report

continued

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 UK Code of Corporate Governance 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.

b) Directors' interests

The interests of the directors, at the end and beginning of the financial year, in the ordinary shares of 25p in the Company were as shown below:

	31 May 2013	1 June 2012
With beneficial interest:		
J M B Cayzer-Colvin	**12,000**	12,000
J J Nelson	**45,000**	45,000
K E Percy	**5,980**	5,700
M A Sieghart	**2,546**	2,259
B Hollond	**5,700**	4,550

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 the date of this report.

c) Directors' fees

A report on the directors' remuneration is set out on pages 26 and 27.

d) Directors' conflicts of interest

The Company's articles of association permit the Board to consider and, if it sees fit, to authorise situations where a Director has an interest that conflicts, or may possibly conflict, with the interests of the Company ("situational conflicts"). The Board has a formal system in place for Directors to declare situational conflicts to be considered for authorisation by those Directors who have no interest in the matter being considered. In deciding whether to authorise a situational conflict, the non-conflicted Directors must act honestly and in good faith with a view to the best interests of the Company and they may impose limits or conditions when giving the authorisation, or subsequently, if they think this is appropriate. Any situational conflicts considered, and any authorisations given, are recorded in the relevant meetings' minutes. The prescribed procedures have been followed in deciding whether, and on what terms, to authorise situational conflicts and the Board believes that the systems it has in place for reporting and considering situational conflicts continues to operate effectively.

e) Directors' insurance and 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 Act 2006 in which he or she is granted relief by the court.

Corporate Governance Statement

a) Background

The UK Listing Authority requires all listed companies to disclose how they have applied the principles and complied with the provisions of the UK Corporate Governance Code ('the Code'). (The Code is accessible at www.frc.co.uk and was published in May 2010 for accounting periods commencing on or after 29 June 2010 and updated in September 2012).

Throughout the year under review the Code was in force. In addition, the AIC Code of Corporate Governance, issued by the Association of Investment Companies in October 2010 ('the AIC Code'), applies to the Company. (The AIC Code, and the related Corporate Governance Guide for Investment Companies, are accessible at www.theaic.co.uk).

b) Statement of compliance

The directors consider that the Company has complied during the year ended 31 May 2013 with all the relevant provisions set out in the Code and with the AIC Code.

c) 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.

Directors' Report

continued

d) 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 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 six (five for the year under review) non-executive directors, all of whom the directors consider to be independent of the Company's Manager. Their biographical details, set out on page 12, 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 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.

Directors are appointed for specified terms, subject to re-election and to the provisions of the Companies Act. 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 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 questionnaire. 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 under the chairmanship of the Senior Independent Director, without the Chairman present, to evaluate his performance.

The Chairman of the Company is an independent non-executive director. A Senior Independent Director, Mr J J Nelson, has

Directors' Report

continued

been appointed. The Board considers that all the directors have different qualities and areas of expertise on which they may lead when issues arise.

e) 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 12. A record of the meetings held during the year is set out on page 21.

The terms of reference of the three committees are available for inspection on the Company's 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 usual 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. The Audit Committee remains satisfied with the effectiveness of the audit provided by PricewaterhouseCoopers LLP. The Audit Committee has reviewed the audit appointment in the past and does not consider it necessary to repeat this at present. The auditors are required to rotate the audit partner every five years, this is the third year that the current partner has been in place. 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 Company's internal control and risk management procedures. The Audit Committee met three times during the year to carry out these duties. Audit fees paid to PricewaterhouseCoopers LLP are detailed in note 5 on page 41.

In July 2011 the Audit Committee adopted a new policy on the provision of non-audit services. The auditors, currently PricewaterhouseCoopers LLP, will not be engaged to provide any non-audit services where the Committee considers there to be any significant risk of their independence, objectivity and effectiveness being compromised by the provision of such services. The Committee may approve the provision of non-audit services if it considers such services to be (a) relevant to the statutory audit work; (b) more efficiently provided by the external audit firm than by a third party; and (c) at low risk of impairing the independence, objectivity and effectiveness of the audit. The Audit Committee will refer to the Board any engagement with a cost or potential cost greater than £20,000 (or the cost, excluding VAT, of the most recent annual audit if higher). All engagements for non-audit services will be determined on a case-by-case basis. No such services were provided in the year under review.

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 met once formally during the year. The details of the management arrangements and the Board's review of them is set out on pages 24 and 25.

Nomination Committee

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

When considering succession planning, the Committee bears in mind the balance of skills, knowledge, experience and diversity existing on the Board. The Nomination Committee

Directors' Report

continued

considers diversity as part of the annual performance evaluation and it is felt that there is a broad range of backgrounds, experience and gender and each Director brings different qualities to the Board and its discussions. The Nomination Committee will recommend when the recruitment of additional non-executive Directors is required to enhance the diversity on the Board. Once a decision is made to recruit additional Directors to the Board, a formal job description is drawn up. The Committee will use external agencies as and when the requirement to recruit an additional Board member becomes necessary, and did so during the year in relation to the appointment of David Lamb.

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

The Committee meets annually to carry out its review of the Board, its composition and size and its Committees.

f) Board attendance

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 below.

	Board	Audit Committee	Nomination Committee
Number of meetings	6	3	1
J M B Cayzer-Colvin*	6	3	1
J J Nelson	6	3	1
K E Percy	6	3	1
M A Sieghart	6	3	1
B Hollond	5	3	1

All the above directors attended the Annual General Meeting.
*Mr J M B Cayzer-Colvin is not a member of the Audit Committee but has attended its meetings by invitation.

g) Board remuneration

The Board has not appointed a separate remuneration committee. The directors' fees are detailed in the Directors' Remuneration Report on pages 26 and 27. The directors have undertaken to use part of their fees, after statutory deductions, to purchase shares in the Company up to a total value equivalent to one year's fees.

h) 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 2012 and 31 May 2013 the number of shares in issue, and thus the number of voting rights, was 74,741,796 and 74,701,796 respectively. This represents 99.98% of the Company's share capital.

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 2012 a special resolution was passed giving the Company authority, until the conclusion of the Annual General Meeting in 2013, to make market purchases for cancellation of the Company's own ordinary shares up to a maximum of 11,198,548 shares (being 14.99% of the issued ordinary share capital as at 30 September 2012). As at 31 May 2013 the Company had valid authority, outstanding until the conclusion of the Annual General Meeting in 2013, to make market purchases for cancellation of 11,158,548 shares. A fresh buy-back authority will be sought at the Annual General Meeting in October. Shares are not bought back unless the result is an increase in the NAV per ordinary share.

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 2012 there were 4,257 preference stock units in issue. No preference stock units were bought back during the year. Therefore, at 31 May 2013 the number of preference stock units in issue was 4,257. This represents 0.02% of the Company's share capital. A fresh buy-back authority will be sought at the Annual General Meeting in October. Further details of the preference stock units are given in note 15 on page 47.

In the period from 31 May 2013 to 29 August 2013 the Company did not buy back any ordinary shares. There remained 11,158,548 ordinary shares available within the buy-back authority granted in 2012.

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.

Directors' Report

continued

i) Substantial share interests

As at 29 August 2013 the following had declared an interest in 3% or more of the voting rights of the Company:

Shareholder	Number of shares	% of voting rights
The Standard Life Investments Group	5,054,695	6.77
East Riding of Yorkshire Council	4,700,000	6.29
Prudential plc group of companies	4,353,902	5.83
Lazard Asset Management	4,110,162	5.50
1607 Capital Partners LLC	3,710,573	4.97
Newton Investment Management Limited	3,697,223	4.95
Royal London Asset Management Limited	3,691,666	4.94

The above percentages are calculated by applying the shareholdings as notified to the Company to the issued share capital as at 29 August 2013 (the shareholdings being the voting rights).

The Board is aware that, as at 31 May 2013, 3.14% 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 the products formerly managed by Henderson Global Investors Limited ('Henderson') or who have subsequently been introduced via this system. In accordance with the arrangements made between HSDL and 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.

j) 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, 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 are 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 55.

k) Accountability and audit

The Statement of Director's Responsibilities in respect of the financial statements is set out on page 28. The responsibilities of the independent auditors are set out on pages 29 and 30. The directors' statement that the business is a going concern is set out on page 17.

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, the Chairman attends meetings of all the chairmen of the investment trust companies managed by the Manager; these meetings provide

Directors' Report

continued

a forum to discuss industry matters and the Chairman reports on them to the Board.

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

The Board has reviewed the implications of the Bribery Act 2010 which came into force on 1 July 2011. Assurance has been provided by the Company's main contractors and suppliers that they will maintain adequate safeguards to protect against any potentially illegal behaviour by their employees or agents.

l) Internal control

The Manager has established an internal control framework to provide reasonable, but not absolute, assurance on the effectiveness of the internal controls operated on behalf of its clients. The effectiveness of the internal controls is assessed by the Manager's internal audit and compliance and risk departments on an ongoing basis.

The Board has overall responsibility for the Company's system of internal control and for reviewing its effectiveness. The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company, in accordance with the Turnbull guidance. This process is subject to regular review by the Board and accords with the Financial Reporting Council ('FRC') 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 Company's system of internal control 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 2012. 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.

m) Corporate responsibility

Social, environmental and ethical statement

Responsible investment

Responsible Investment is the term used by the Company's Manager, Henderson Global Investors Limited ('Henderson'), to cover its work on corporate governance and corporate responsibility (or social, environmental and ethical issues) in the companies in which it invests on its clients' behalf, across all funds. In May 2005 Henderson became a founding signatory to the United Nations Principles for Responsible Investment. The Principles, developed under the auspices of the UN Secretary-General, are a voluntary and aspirational framework for incorporating environmental, social and corporate governance issues into mainstream investment decision-making and ownership practices. The way companies respond to sustainability and corporate responsibility can affect their business performance, both directly and indirectly. An investee company's policy on social responsibility and the environment is therefore considered as part of the investment risk decision.

Voting policy and the UK Stewardship Code

Henderson's Responsible Investment Policy sets out the approach to corporate governance and corporate responsibility for all the companies in which it invests on behalf of its clients,

Directors' Report

continued

and its policy on proxy voting. The Policy also sets out how Henderson implements the Stewardship Code. The Company has delegated responsibility for voting to Henderson as its Manager. The Board will receive a report, at least annually, on the voting undertaken by Henderson on behalf of the Company. The Board and Henderson believe that voting at general meetings is an important aspect of corporate stewardship and a means of signalling shareholder views on board policy, practices and performance. Voting recommendations are guided by the best interests of the investee companies' shareholders. Depending on the nature of the resolution, the Fund Manager will give specific instructions on voting non-routine and unusual or controversial resolutions, after liaising with the Chairman or the full Board as appropriate. Decisions not to support resolutions and the rationale therefore are fed back to the investee company prior to voting. The Henderson Responsible Investment Policy and further details of Henderson's responsible investment activities can be found on the Henderson website, www.henderson.com.

Employee and environmental matters

The Company has no employees and its core activities are undertaken by Henderson, which has implemented environmental management practices, including systems to limit the use of non-renewable resources and to minimise the impact of operations on the environment, and is focused on reducing greenhouse gas emissions and minimising waste, where possible.

Related Party Transactions

Other than the relationship between the Company, and its Directors, the provision of services by Henderson is the only related party arrangement currently in place. Other than fees payable by the Company in the ordinary course of business, there have been no material transactions with this related party affecting the financial position or the performance of the Company during the year under review.

The Manager

Investment management, together with investment administration, company secretarial and accounting services, are provided to the Company by wholly-owned subsidiary companies of Henderson Group plc ('Henderson' or 'the Manager'). Some of the administration and accounting services are carried out, on behalf of Henderson, by BNP Paribas Securities Services.

Other than fees payable by the Company in the ordinary course of business, there have been no material transactions with the Manager affecting the financial position or performance of the Company during the year under review.

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 2013 the percentage fee rate was 0.0875% per quarter (0.35% per annum) (2012: the same).

In addition, the management agreement provides for the payment of a performance fee, calculated as 15% 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% 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% 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 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.

Directors' Report

continued

A performance fee of £2.0 million is payable in respect of the year ended 31 May 2013 (2012: £nil). The Historic Amount carried forward at 31 May 2013 was £23,454,042 (2012: £15,726,310).

The management agreement provides for a formal review every three years of the fee arrangements with the Manager. Neither the Manager nor the Board required any changes following the review in 2011.

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 every third year 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.

Custodian

JPMorgan Chase Bank N.A. is the Company's appointed global custodian; its fees for UK custody are offset against the management fees payable to Henderson. Under this arrangement the Company pays the Custody fee and the Manager then has this rebated via a reduction from the gross management charge.

Annual General Meeting

The next Annual General Meeting will be held at 10.30 am on Friday 4 October 2013 at the Company's Registered Office, 201 Bishopsgate, London EC2M 3AE. The Notice of Meeting is set out in the accompanying circular to shareholders.

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 12. 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 Financial Statements 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.

By order of the Board
Henderson Secretarial Services Limited,
Company Secretary
29 August 2013

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 2013. An ordinary resolution to receive and approve the Report will be put to the Annual General Meeting on 4 October 2013. 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 unaudited and audited 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, from time to time, review the fees paid to the boards of directors of other investment trust companies).

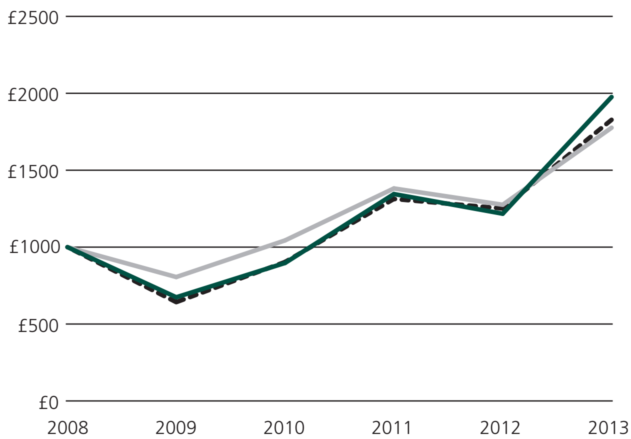
Statement of the Company's policy on directors' remuneration

The Board consists entirely of non-executive directors who meet at least six 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 were last increased, with effect from 1 January 2010 to the current level, as follows: the Chairman £28,000 per annum, the Chairman of the Audit Committee £21,000 per annum and the other directors £18,000 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. Out of the fees paid to each Director, a proportion is used to purchase shares up to a total value equivalent to one years fees.

Performance graph



The Henderson Smaller Companies Investment Trust plc share price total return, assuming the investment of £1,000 on 31 May 2008 and the reinvestment of all dividends (excluding dealing expenses)

Numis Smaller Companies Index (excluding investment companies), assuming the notional investment of £1,000 into the Index on 31 May 2008 and the reinvestment of all income (excluding dealing expenses)

The Henderson Smaller Companies Investment Trust plc NAV total return for 2008 and cum income fair value NAV total return for the period 2009 – 2013, assuming the investment of £1,000 on 31 May 2008 and the reinvestment of all dividends (excluding dealing expenses).

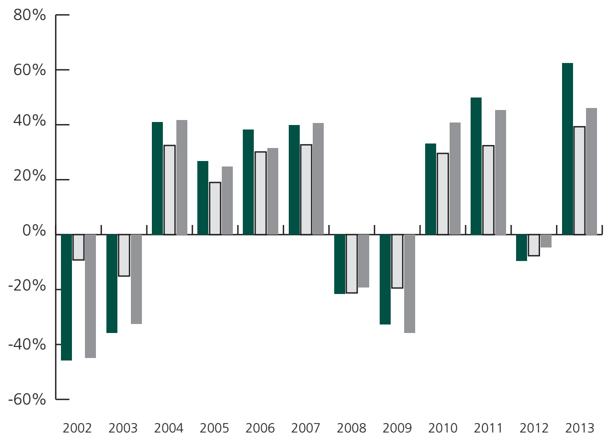
Source: Datastream

Directors' Remuneration Report

continued

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

The information given in the graph above, which is set out in the format required by the Act, may be more readily understood in the form of a bar chart. The bar chart below compares the performance of the Company's share price to the performance of the benchmark index in each of the ten years up to 31 May 2013. Neil Hermon was appointed Fund Manager in November 2002 and the bar chart covers the full years to date of his management.



The Henderson Smaller Companies Investment Trust plc: share price total return for the year ended 31 May

The Numis Smaller Companies Index (excluding investment companies): total return for the year ended 31 May

The Henderson Smaller Companies Investment Trust plc: NAV total return for the year ended 31 May for the period 2002 – 2008 and cum income fair value NAV total return for the period 2009 – 2013.

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 2012, were as follows:

	2013 £	2012 £
J M B Cayzer-Colvin(i)	**28,000**	22,737
B Hollond(ii)	**21,000**	21,000
J J Nelson	**18,000**	18,000
K E Percy	**18,000**	18,000
M A Sieghart	**18,000**	18,000
J D Fishburn(iii)	**–**	12,333
TOTAL	**103,000**	110,070

Notes:

(i) Mr Cayzer-Colvin was appointed to the Board on 13 May 2011 and appointed as Chairman on 30 September 2011.

(ii) Mrs Hollond was appointed to the Board on 23 July 2010 and as Chairman of the Audit Committee on 24 September 2010.

(iii) Mr Fishburn retired from the Board on 30 September 2011.

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

Henderson Secretarial Services Limited,

Company Secretary

29 August 2013

Statement of Directors' Responsibilities

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

The directors are responsible for preparing the Annual Report, 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 financial statements in accordance with International Financial Reporting Standards ('IFRS') 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 Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRS 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 unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement under DTR 4.1.12

Each of the directors, who are listed on page 12, confirm that to the best of their knowledge:

- the financial statements, which have been prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company; 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 Company, 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 M B Cayzer-Colvin
Chairman
29 August 2013

Independent Auditors' Report

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 2013 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 28, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's 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 Chapter 3 of Part 16 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 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. In addition, we read all the financial and non-financial information in the Report and Financial Statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 May 2013 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 17, in relation to going concern;
- the parts of the Corporate Governance Statement relating to the company's compliance with the nine provisions of

Independent Auditors' Report
continued

the UK Corporate Governance Code specified for our review; and

- certain elements of the report to shareholders by the Board on directors' remuneration.

Sally Cosgrove (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
29 August 2013

Statement of Comprehensive Income

for the year ended 31 May 2013

Notes		**Year ended 31 May 2013** Revenue return £'000	**Year ended 31 May 2013** Capital return £'000	**Year ended 31 May 2013** Total £'000	Year ended 31 May 2012 Revenue return £'000	Year ended 31 May 2012 Capital return £'000	Year ended 31 May 2012 Total £'000
2	Investment income	**8,447**	**–**	**8,447**	8,195	–	8,195
3	Other income	**158**	**–**	**158**	36	–	36
10	Gains/(losses) on investments held at fair value through profit or loss	**–**	**125,057**	**125,057**	–	(19,160)	(19,160)
	Total income	**8,605**	**125,057**	**133,662**	8,231	(19,160)	(10,929)
	Expenses						
4	Management and performance fees	**(1,206)**	**(2,000)**	**(3,206)**	(1,008)	–	(1,008)
5	Other expenses	**(489)**	**–**	**(489)**	(422)	–	(422)
	Profit/(loss) before finance costs and taxation	**6,910**	**123,057**	**129,967**	6,801	(19,160)	(12,359)
6	Finance costs	**(2,235)**	**–**	**(2,235)**	(2,261)	–	(2,261)
	Profit/(loss) before taxation	**4,675**	**123,057**	**127,732**	4,540	(19,160)	(14,620)
7	Taxation	**(14)**	**–**	**(14)**	(2)	–	(2)
	Net profit/(loss) for the year and total comprehensive income	**4,661**	**123,057**	**127,718**	4,538	(19,160)	(14,622)
8	**Basic and diluted earnings/(loss) per ordinary share**	**6.24p**	**164.72p**	**170.96p**	6.07p	(25.62)p	(19.55)p

The total column of this statement represents the Statement of Comprehensive Income, prepared in accordance with IFRS as adopted by the European Union.

The revenue return and capital return columns are supplementary to this and are prepared under guidance published by the Association of Investment Companies.

The notes on pages 35 to 54 form part of these financial statements.

Statement of Changes in Equity

for the year ended 31 May 2013

Notes		Year ended 31 May 2013 Called up share capital £'000	Capital redemption reserve £'000	Retained earnings Capital reserves £'000	Retained earnings Revenue reserve £'000	Total £'000
	Total equity at 1 June 2012	**18,686**	**26,735**	**224,150**	**10,355**	**279,926**
	Total comprehensive income:					
	Profit for the year	**–**	**–**	**123,057**	**4,661**	**127,718**
	Transactions with owners, recorded directly to equity:					
9	Ordinary dividends paid	**–**	**–**	**–**	**(4,104)**	**(4,104)**
17	Buy-backs of ordinary shares	**(10)**	**10**	**(120)**	**–**	**(120)**
	Total equity at 31 May 2013	**18,676**	**26,745**	**347,087**	**10,912**	**403,420**

		Year ended 31 May 2012 Called up share capital £'000	Capital redemption reserve £'000	Retained earnings Capital reserves £'000	Retained earnings Revenue reserve £'000	Total £'000
	Total equity at 1 June 2011	18,727	26,694	243,800	8,963	298,184
	Total comprehensive income:					
	(Loss)/profit for the year	–	–	(19,160)	4,538	(14,622)
	Transactions with owners, recorded directly to equity:					
9	Ordinary dividends paid	–	–	–	(3,146)	(3,146)
17	Buy-backs of ordinary shares	(41)	41	(490)	–	(490)
	Total equity at 31 May 2012	18,686	26,735	224,150	10,355	279,926

The notes on pages 35 to 54 form part of these financial statements.

Balance Sheet

at 31 May 2013

Notes		**2013 £'000**	2012 £'000
	Non current assets		
10	Investments held at fair value through profit or loss	**436,659**	304,333
	Current assets		
13	Receivables	**2,017**	1,493
	Tax recoverable	**14**	28
	Cash and cash equivalents	**2,595**	270
		4,626	1,791
	Total assets	**441,285**	306,124
	Current liabilities		
14	Payables	**(2,330)**	(94)
16(v)	Bank loans	**(15,531)**	(6,100)
		(17,861)	(6,194)
	Total assets less current liabilities	**423,424**	299,930
	Non current liabilities		
15	Financial liabilities	**(20,004)**	(20,004)
	Net assets	**403,420**	279,926
	Equity attributable to equity shareholders		
17	Called up share capital	**18,676**	18,686
18	Capital redemption reserve	**26,745**	26,735
	Retained earnings		
18	Capital reserves	**347,087**	224,150
19	Revenue reserve	**10,912**	10,355
	Total equity	**403,420**	279,926
20	**Basic and diluted net asset value per ordinary share**	**540.0p**	374.5p

The financial statements on pages 31-34 were approved by the Board of Directors on 29 August 2013 and signed on their behalf by:

J M B Cayzer-Colvin
Chairman

The notes on pages 35 to 54 form part of these financial statements.

Cash Flow Statement

for the year ended 31 May 2013

Notes		2013 £'000	2012 £'000
	Operating activities		
	Profit/(loss) before taxation	**127,732**	(14,620)
6	Add: interest payable	**2,235**	2,261
	(Less)/add: (gains)/losses on investments held at fair value through profit or loss	**(125,057)**	19,160
	Purchases of investments	**(80,416)**	(35,933)
	Sales of investments	**73,147**	36,584
	(Increase)/decrease in receivables	**(42)**	7
	Increase in amounts due from brokers	**(580)**	–
	Decrease in accrued income	**98**	100
	Increase/(decrease) in payables	**2,003**	(1,634)
	Increase/(decrease) in amounts due to brokers	**197**	(502)
	Taxation on investment income	**–**	3
	Net cash (outflow)/inflow from operating activities before interest and taxation	**(683)**	5,426
	Interest paid	**(2,199)**	(2,261)
	Net cash (outflow)/inflow from operating activities	**(2,882)**	3,165
	Financing activities		
9	Equity dividends paid	**(4,109)**	(3,146)
9	Dividends unclaimed after 12 years	**5**	–
	Buy-backs of ordinary shares	**(120)**	(490)
	Drawdown of bank loans	**9,431**	100
	Net cash inflow/(outflow) from financing activities	**5,207**	(3,536)
	Increase/(decrease) in cash and cash equivalents	**2,325**	(371)
	Exchange movements	**–**	(1)
	Cash and cash equivalents at the start of the year	**270**	642
	Cash and cash equivalents at the end of the year	**2,595**	270

The notes on pages 35 to 54 form part of these financial statements.

Notes to the Financial Statements

1 Accounting policies

(a) Basis of preparation

The Henderson Smaller Companies Investment Trust plc ('the Company') is a company incorporated and domiciled in the United Kingdom under the Companies Act 2006. The financial statements of the Company for the year ended 31 May 2013 have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union 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 Financial Reporting Standards Committee ('IFRSC') 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 held at fair value through profit or loss. The principal accounting policies adopted are set out below. These policies have been applied consistently throughout the year. 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.

Accounting Standards

(i) New and amended standards adopted by the Company

- IAS 1 (amendment), Presentation of Financial Statements – amendments regarding other comprehensive income. No impact on financial statements.

(ii) New standards, amendments and interpretations issued but not effective for the current financial year and not early adopted by the Company:

- IFRS 7 (amendment), Financial Instruments – Disclosures (effective for periods beginning on or after 1 January 2013) – amendments enhancing disclosures about offsetting financial assets and financial liabilities.
- IAS 32 (amendment), Financial Instruments – Presentation (effective for annual periods beginning on or after 1 January 2014) – amendment that updates the application guidance in IAS 32, 'Financial instruments: Presentation', to clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet.
- IFRS 9, 'Financial instruments' (effective for financial periods beginning on or after 1 January 2015) – addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Company is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2013, subject to endorsement by the EU.

Notes to the Financial Statements

continued

1 Accounting policies (continued)

- IFRS 13, 'Fair value measurement' (effective for financial periods beginning on or after 1 January 2013) – aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. The company is yet to assess IFRS13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on or after 1 January 2013.

(iii) New standards, amendments and interpretations issued but not effective for the current financial year and not relevant to the company's operations:

- IFRS 1 (amendments), First Time Adoption of International Financial Reporting Standards
- IFRS 10, Consolidated Financial Statements
- IFRS 11, Joint Arrangements
- IAS 12 (amendment), Income Taxes
- IAS 27, Separate Financial Statements
- IAS 28, Associates and Joint Venture
- IAS 19, Employee benefits
- IFRS 12, Disclosure of interest in other entities

(b) Going concern

The Company's shareholders are asked every three years to vote for the continuation of the Company. An ordinary resolution to this effect was put to the Annual General Meeting ("AGM") held on 24 September 2010 and passed by a substantial majority of the shareholders. Accordingly, an ordinary resolution to this effect will be put to shareholders at the forthcoming AGM to be held on 4 October 2013. The Board has no reason to believe that this resolution will not be passed. The assets of the Company consist almost entirely of securities that are listed (or listed on AIM) and, accordingly, the directors believe that the Company has adequate financial resources to continue in operational existence for the foreseeable future. For these reasons, the Board has decided that it is appropriate for the financial statements to be prepared on a going concern basis.

(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 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.

Notes to the Financial Statements

continued

1 Accounting policies (continued)

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 Statement of Comprehensive Income 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 Statement of Comprehensive Income

In order to better reflect the activities of an investment trust company, and in accordance with guidance issued by the Association of Investment Companies ('the AIC'), supplementary information which analyses the Statement of Comprehensive Income between items of a revenue and capital nature has been presented alongside the Statement of Comprehensive Income. In accordance with the Company's status as a UK investment company under section 833 of the Companies Act 2006, net capital returns are no longer prohibited to be distributed by way of dividend where authority is given within the Company's Articles of Association. Additionally, the net revenue is the measure the directors believe appropriate in assessing the Company's compliance with certain requirements set out in section 1158 of the Corporation Tax Act 2010.

(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. Interest is recognised using the effective interest rate method. Bank deposit interest is accounted for on an accruals basis.

Where the Company enters into a commitment to sub-underwrite an issue of securities in exchange for the receipt of commission, a derivative financial instrument is created. Any such derivatives are recognised initially at fair value. They are re-measured subsequently at fair value, with the related gains and losses being reflected in the Statement of Comprehensive Income. Net losses arising from these derivatives, where the actual or expected loss from taking up the securities underwritten exceeds the commission income, are allocated to the capital return. Net gains are allocated to the revenue return.

Income distributions from UK Real Estate Investment Trusts (UK REITs) will be split into two parts, a Property Income Distribution (PID) made up of rental revenue and a non-PID element, consisting of non-rental revenue. The PID element is subject to corporation tax as schedule A revenue, while the non-PID element will be treated as franked 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 return column of the Statement of Comprehensive Income. Expenses which are incidental to the purchase or sale of an investment are charged to the capital column of the Statement of Comprehensive Income and allocated to the capital reserves.

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.

(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 Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that were applicable at the balance sheet date.

Notes to the Financial Statements
continued

1 Accounting policies (continued)

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 Statement of Comprehensive Income 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 Statement of Comprehensive Income, 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 1158 of the Corporation Tax Act 2010.

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 Statement of Comprehensive Income, 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 financial statements, the results and financial position are expressed in pounds sterling, which is the functional currency and presentational currency of the Company. Sterling is the functional currency because it is the currency of the primary economic environment in which the Company operates.

Transactions recorded in overseas currencies during the year are translated into sterling at the appropriate daily exchange rates. Monetary assets and liabilities and investments held at fair value through profit or loss which are denominated in overseas currencies at the balance sheet date are translated into sterling at the exchange rates ruling at that date. Gains and losses arising on the retranslation of investments held at fair value through profit or loss are included within the "Gains or losses on investments held at fair value through profit or loss".

(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 Statement of Comprehensive Income using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Notes to the Financial Statements

continued

1 Accounting policies (continued)

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.

(k) Operating segments

Under IFRS 8, operating segments are considered to be components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The directors meet regularly to consider investment strategy and to monitor the Company's performance. The Manager, who has been appointed to manage the Company's investments, attends all Board meetings at which investment strategy and performance are discussed.

The directors consider that the Company has one operating segment, being the activity of investing in shares and securities primarily for capital appreciation in accordance with the Company's published investment objective.
The Company operates within the United Kingdom.

(l) Dividends payable to shareholders

Dividends payable to shareholders are recognised in the financial statements when they are paid or, in the case of final dividends, when they are approved by shareholders. Dividends are recorded in the Statement of Changes in Equity.

(m) Capital reserves

Capital reserve arising on investments sold

The following are accounted for in this reserve:

– gains and losses on the disposals of investments;

– expenses and finance costs allocated to capital net of tax relief;

– realised foreign exchange differences of a capital nature; and

– costs of repurchasing ordinary share capital.

Capital reserve arising on revaluation of investments held

The following are accounted for in this reserve:

– increases and decreases in the valuation of investments held at the year end; and

– unrealised foreign exchange differences of a capital nature.

(n) Key estimates and assumptions

Estimates and assumptions used in preparing the financial statements are reviewed on an ongoing basis and are based on historical experience and various other factors that are believed to be reasonable under the circumstances. The results of these estimates and assumptions form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

There are no estimates and assumptions that may cause material adjustment to the carrying value of assets and liabilities as described in note 16.

Notes to the Financial Statements

continued

2	**Investment income**	**2013 £'000**	2012 £'000
	Franked income from companies listed or quoted in the United Kingdom:		
	Dividends	**7,168**	7,346
	Special dividends	**317**	116
	Unfranked income from companies listed or quoted in the United Kingdom:		
	Dividends	**890**	665
	Property income distributions	**72**	68
	Total investment income	**8,447**	8,195

3	**Other income**	**2013 £'000**	2012 £'000
	Bank interest	**7**	3
	Underwriting income (allocated to revenue)*	**151**	33
		158	36

*None of the income receivable from sub-underwriting commitments was allocated to capital during the year (2012: £nil).

4	**Management and performance fees**	**2013 Revenue return £'000**	**2013 Capital return £'000**	**2013 Total £'000**	2012 Revenue return £'000	2012 Capital return £'000	2012 Total £'000
	Management fee	**1,206**	**–**	**1,206**	1,008	–	1,008
	Performance fee	**–**	**2,000**	**2,000**	–	–	–
		1,206	**2,000**	**3,206**	1,008	–	1,008

A summary of the management agreement is given on pages 24 and 25 in the Directors' Report.

Notes to the Financial Statements

continued

5	**Other expenses**	**2013 £'000**	2012 £'000
	Directors' fees (see the Directors' Remuneration Report on pages 26 and 27)	**103**	110
	Remuneration for the audit of the Company and the financial statements	**24**	24
	Payable to FRP Advisory LLP for services relating to the subsidiary liquidation	**4**	4
	Other professional fees	**48**	39
	FSA/FCA and London Stock Exchange fees	**19**	18
	Registration costs	**16**	14
	Annual and half year reports and shareholder circulars: printing and distribution	**21**	22
	Insurances	**6**	13
	AIC subscriptions	**27**	26
	Custody and other bank charges	**24**	19
	Bank facilities: commitment fees	**120**	86
	Charitable donations	**5**	5
	Other expenses payable to the management company*	**28**	18
	Share price listings in newspapers and websites	**8**	8
	Other expenses†	**36**	16
		489	422

*Other expenses payable to the management company ('Henderson') relate to marketing services.

†Other expenses includes VAT payable on Auditors remuneration.

All the above expenses include VAT where VAT is applied to them.

6	**Finance costs**	**2013 £'000**	2012 £'000
	Bank overdraft and loan interest	**135**	161
	Interest on debentures	**2,100**	2,100
		2,235	2,261

Notes to the Financial Statements

continued

7 Taxation

(a) Analysis of charge for the year

	2013 Revenue return £'000	2013 Capital return £'000	2013 Total £'000	2012 Revenue return £'000	2012 Capital return £'000	2012 Total £'000
Overseas tax suffered	**14**	**–**	**14**	2	–	2
Current and total tax charge for the year	**14**	**–**	**14**	2	–	2

(b) Factors affecting the tax charge for the year

UK corporation tax at 23.83% (2012: 25.67%).

Approved investment trusts are exempt from tax on chargeable gains made by the investment trust.

The tax assessed for the year is lower than the average standard rate of corporation tax in the UK of 23.83% (2012: 25.67%) for the year ended 31 May 2013. The standard rate of corporation tax in the UK changed from 24% to 23% with effect from 1 April 2013. Accordingly the Company's profits for this accounting period are taxed at an effective rate of 23.83%.

The differences are explained below.

	2013 Revenue return £'000	2013 Capital return £'000	2013 Total £'000	2012 Revenue return £'000	2012 Capital return £'000	2012 Total £'000
Net profit/(loss) on ordinary activities before taxation	**4,675**	**123,057**	**127,732**	4,540	(19,160)	(14,620)
Corporation tax at 23.83% (2012: 25.67%)	**1,114**	**29,324**	**30,438**	1,165	(4,918)	(3,753)
Effects of:						
Non-taxable UK dividends	**(1,784)**	**–**	**(1,784)**	(1,916)	–	(1,916)
Non-taxable overseas dividends	**(212)**	**–**	**(212)**	(171)	–	(171)
Excess management expenses and loan deficits	**882**	**477**	**1,359**	922	–	922
Overseas withholding tax	**14**	**–**	**14**	2	–	2
Non taxable capital items	**–**	**(29,801)**	**(29,801)**	–	4,918	4,918
Tax charge	**14**	**–**	**14**	2	–	2

Notes to the Financial Statements

continued

7 Taxation (continued)

(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 £13,368,000 (2012: £12,581,000) arising as a result of having unutilised management expenses and deficits on loan relationships. These expenses will only be utilised if the tax treatment of the Company's income and capital gains changes or if the Company's investment profile changes.

8 Earnings per ordinary share

The earnings per ordinary share figure is based on the net earnings for the year of £127,718,000 (2012: loss of £14,622,000) and on 74,705,358 (2012: 74,781,723) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

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

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

	2013 £'000	2012 £'000
Net revenue profit	**4,661**	4,538
Net capital profit/(loss)	**123,057**	(19,160)
Net total profit/(loss)	**127,718**	(14,622)
Weighted average number of ordinary shares in issue during the year	**74,705,358**	74,781,723

	Pence	Pence
Revenue earnings per ordinary share	**6.24**	6.07
Capital earnings/(loss) per ordinary share	**164.72**	(25.62)
Total earnings/(loss) per ordinary share	**170.96**	(19.55)

Notes to the Financial Statements

continued

9 Dividends	**2013 £'000**	2012 £'000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 May 2012 of 5.50p (2011: 4.20p) per ordinary share	**4,109**	3,146
Write-back of unclaimed dividends relating to prior years	**(5)**	–
	4,104	3,146

The final dividend of 5.50p per ordinary share in respect of the year ended 31 May 2012 was paid on 12 October 2012 to shareholders on the register of members at the close of business on 21 September 2012. The dividend paid amounted to £4,109,000 in total.

Subject to approval at the Annual General Meeting, the proposed final dividend of 6.5p per ordinary share will be paid on 11 October 2013 to shareholders on the register of members at the close of business on 20 September 2013.

The proposed final dividend for the year ended 31 May 2013 has not been included as a liability in these financial statements. Under IFRS, the final dividend is not recognised until approved by the shareholders.

The total dividends payable in respect of the financial year which form the basis of the test under section 1158 of the Corporation Tax Act 2010 are set out below:

	2013 £'000
Revenue available for distribution by way of dividends for the year	**4,661**
Proposed final dividend for the year ended 31 May 2013: 6.5p (based on the 74,701,796 shares in issue at 29 August 2013)	**(4,856)**
Shortfall for year*	**(195)**

*All current year income has been distributed, the shortfall of £195,000 has been transferred from revenue reserves.

Notes to the Financial Statements

continued

10	**Investments held at fair value**	**2013 £'000**	2012 £'000
	Cost at 1 June 2012	**221,153**	215,794
	Investment holding gains at 1 June 2012	**83,180**	110,611
	Valuation at 1 June 2012	**304,333**	326,405
	Movements in the year:		
	Acquisitions at cost	**80,416**	35,933
	Liquidation of subsidiary	**–**	(2,262)
	Disposals at cost	**(46,584)**	(30,574)
	Movement in investment holding gains	**98,494**	(25,169)
	Valuation at 31 May 2013	**436,659**	304,333
	Cost at 31 May 2013	**254,985**	221,153
	Investment holding gains	**181,674**	83,180
	Valuation at 31 May 2013	**436,659**	304,333

Included in the total investments are investments that are listed on the Alternative Investment Market with an aggregate valuation of £30,619,000 (2012: £27,823,000).

Purchase and sale transaction costs for the year ended 31 May 2013 were £350,000 and £85,000 respectively (2012: transaction costs of purchases £181,000; transaction costs of sales £45,000). These comprise mainly stamp duty and commission.

Analysis of investments at fair value:

	2013 £'000	2012 £'000
Equity investments:		
Listed on London Stock Exchange	**406,040**	276,510
Listed on Alternative Investment Market	**30,619**	27,823
	436,659	304,333

All the investments are listed in the United Kingdom. The above categories are based on information obtained from the Stock Exchange Daily Official list.

Notes to the Financial Statements

continued

10 Investments held at fair value (continued)

Total capital gains/(losses) from investments	**2013 £'000**	2012 £'000
Gains on the sale of investments based on historical cost	**27,216**	6,010
Revaluation gains recognised in previous years	**(25,703)**	(11,556)
Gains/(losses) on investments sold in the year based on the carrying value at the previous balance sheet date	**1,513**	(5,546)
Investment holding gains/(losses)	**123,544**	(13,613)
Net movement on foreign exchange on cash and cash equivalents	**–**	(1)
	125,057	(19,160)

All capital gains/(losses) are from investments that are listed (or listed on AIM) in the United Kingdom.

11 Subsidiary undertaking

The Company's subsidiary, Henderson Smaller Companies Finance Limited was dissolved on 9 January 2013. Accordingly, this report has been prepared on a single company basis and there are no references to the subsidiary in the financial statements.

12 Substantial interests

The Company held interests in 3% or more of any class of share capital in three investee companies (2012: three investee companies). These investments are not considered by the directors to be significant in the context of these financial statements.

Company	**Valuation £'000**	**% of voting rights**
e2v Technologies	**8,899**	**3.2**
Capital Regional	**4,047**	**3.3**
WYG	**1,972**	**3.8**

13 Receivables	**2013 £'000**	2012 £'000
Securities sold for future settlement	**580**	–
Prepayments and accrued income	**1,437**	1,493
	2,017	1,493

Notes to the Financial Statements

continued

14	**Payables**	**2013 £'000**	2012 £'000
	Securities purchased for future settlement	**197**	–
	Performance fee	**2,000**	–
	Accruals and deferred income	**133**	94
		2,330	94

15	**Non current liabilities**	**2013 £'000**	2012 £'000
	Debenture stock: redemption after more than three years:		
	10.5% Debenture Stock 2016 (redeemable at par on 31 May 2016)	**20,000**	20,000
	Preference stock:		
	4,257 Preference Stock units of £1 each (2012: 4,257)	**4**	4
		20,004	20,004

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 non current liabilities 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. Interest on the debenture stock is payable half yearly, on 31 May and 30 November.

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.

Notes to the Financial Statements

continued

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.

The Company's exposure to changes in market prices at 31 May 2013 on its equity investments was £436,659,000 (2012: £304,333,000).

Concentration of exposure to market price risk

An analysis of the Company's investments is shown on pages 9 to 11 and a sector analysis is set out on page 4. At 31 May 2013 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 2013 is a decrease of £382,000 (2012: £266,000) and on the capital return is an increase of £109,165,000 (2012: £76,083,000). Accordingly, the total impact on shareholders' funds is an increase of £108,783,000 (2012: £75,817,000).

Notes to the Financial Statements

continued

16 Risk management policies and procedures (continued)

The impact of a 25% decrease in the value of the investments on the revenue return as at 31 May 2013 is an increase of £382,000 (2012: £266,000) and on the capital return is a decrease of £109,165,000 (2012: £76,083,000). Accordingly, the total impact is a decrease of £108,783,000 (2012: £75,817,000).

(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 2013, the Company did not hold any non-sterling denominated investments (2012: 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. At 31 May 2013 the Company had committed bank borrowing facilities for a total of £20 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.

Interest rate exposure

The Company's financial liabilities at 31 May 2013 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. As at 31 May 2013 the Company's bank facility allowed borrowings to a maximum of £20 million the interest rate exposure on which is 1.42% plus LIBOR; the interest payable on the Company's £20 million issue of Debenture Stock is fixed at 10.5%.

Notes to the Financial Statements

continued

16 Risk management policies and procedures (continued)

(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 10.5% Debenture Stock 2016. The Company is able to draw short term borrowings of up to £20 million from its committed borrowing facility which expires on 11 February 2015 with National Australia Bank. There were borrowings of £15,531,000 drawn down under the facility at 31 May 2013 (2012: £6,100,000).

Accordingly, the Company has access to borrowings of up to £40 million: the £20 million of fixed debt represented by the issue of Debenture Stock and a committed bank facility for £20 million.

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 2013, based on the earliest date on which payment can be required, was as follows:

	2013 Due within 1 year £'000	**2013 Due between 1 and 5 years £'000**	2012 Due within 1 year £'000	2012 Due between 1 and 5 years £'000
Debenture stock*	**2,100**	**26,300**	2,100	26,300
Preference stock†	**–**	**–**	–	–
Bank loans and interest†	**15,531**	**–**	6,105	–
Payables	**133**	**–**	94	–
	17,764	**26,300**	8,299	26,300

*The amounts due include Debenture interest.

†See also note 15 on page 47. The Company has in issue preference stock without a set redemption date with a total par value of £4,000 (2012: £4,000) which has a negligible ongoing finance cost. The bank loans in place at 31 May 2013 are to be rolled forward, together with interest.

(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; and

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

In summary, the maximum exposure to credit risk at 31 May 2013 was to cash and cash equivalents of £2,595,000 (2012: £270,000), to receivables of £2,017,000 (2012: £1,521,000) (see note 13) and to tax recoverable of £14,000 (2012: £28,000).

Notes to the Financial Statements

continued

16 Risk management policies and procedures (continued)

(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 2013 the fair value of the debenture stock was £23,750,000 (2012: £24,922,000). The fair value of the debenture stock is calculated using the prices quoted on the exchange on which the instrument trades. The debenture stock is carried in the balance sheet at par. At 31 May 2013 the fair value of the preference stock was £4,000 (2012: £4,000). The fair value of the preference stock is estimated using the prices quoted on the exchange on which the investment trades. The preference stock is carried in the balance sheet at par.

(viii) Fair value hierarchy disclosures

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

Categorisation within the hierarchy has been determined on the basis of the lowest level of input that is significant to the fair value measurement of the relevant asset, as follows:
Level 1: valued using quoted prices in active markets for identical assets.
Level 2: valued by reference to valuation techniques using observable inputs other than quoted prices.
Level 3: valued by reference to valuation techniques using inputs that are not based on observable market data.

The valuation techniques used by the Company are explained in note 1 (c) on page 36.

Fair value hierarchy – 2013	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equity investments	**436,659**	**–**	**–**	**436,659**

Fair value hierarchy – 2012	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equity investments	304,333	–	–	304,333

There have been no transfers during the year between any of the levels. A reconciliation of fair value movements within Level 3 is set out below.

Level 3 investments at fair value through profit or loss	2013 £'000	2012 £'000
Opening balance as at 1 June	**–**	2,262
Total loss on assets held at year end	**–**	–
Liquidation of subsidiary	**–**	(2,262)
Closing balance as at 31 May	**–**	–

(ix) 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.

Notes to the Financial Statements

continued

16 Risk management policies and procedures (continued)

The Company's total capital at 31 May 2013 was £438,955,000 (2012: £306,030,000) comprising £15,531,000 (2012: £6,100,000) of unsecured bank loans, £20,000,000 (2012: £20,000,000) of debenture stock, £4,000 (2012: £4,000) of preference stock and £403,420,000 (2012: £279,926,000) of equity share capital and reserves.

At 31 May 2013 the Company had a two year revolving credit facility with National Australia Bank. The Company had drawn down £15,531,000 under these facilities as at 31 May 2013. The Company was fully compliant with the terms of the facility, as it existed, for the period from 1 June 2012 to the date of this Annual Report.

17 Called up share capital

	2013 £'000	2012 £'000
Allotted, issued and fully paid:		
74,701,796 ordinary shares of 25p each (2012: 74,741,796)	**18,676**	18,686

During the year the Company purchased for cancellation 40,000 of its own issued ordinary shares (2012: 165,000) at a total cost of £120,000 (2012: £490,000). Since 31 May 2013 the Company has not purchased any ordinary shares.

18 Capital redemption reserve and capital reserves

Investment holding gains at 31 May 2013 include £8,423,000 in respect of unlisted investments (2012: £2,982,000).

	Capital redemption reserve £'000	**Capital reserve arising on revaluation of investments held £'000**	**Capital reserve arising on investments sold £'000**	**Capital reserves £'000**
At 1 June 2012	26,735	83,180	140,970	224,150
Transfer on disposal of investments (see note 10)	–	(25,703)	25,703	–
Net capital gains for the year	–	123,544	1,513	125,057
Buy-backs of ordinary shares	10	–	(120)	(120)
Performance fee	–	–	(2,000)	(2,000)
At 31 May 2013	**26,745**	**181,021**	**166,066**	**347,087**

	Capital redemption reserve £'000	Capital reserve arising on revaluation of investments held £'000	Capital reserve arising on investments sold £'000	Capital reserves £'000
At 1 June 2011	26,694	110,611	133,189	243,800
Transfer on disposal of investments (see note 10)	–	(11,556)	11,556	–
Net capital losses for the year	–	(13,613)	(5,546)	(19,159)
Liquidation of subsidiary	–	(2,262)	2,262	–
Buy-backs of ordinary shares	41	–	(490)	(490)
Net movement on foreign exchange	–	–	(1)	(1)
At 31 May 2012	26,735	83,180	140,970	224,150

Notes to the Financial Statements

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19	Retained earnings – revenue reserve	2013 £'000	2012 £'000
	At 1 June	**10,355**	8,963
	Ordinary dividend paid	**(4,109)**	(3,146)
	Dividends unclaimed after 12 years	**5**	–
	Revenue profit for the year	**4,661**	4,538
	At 31 May	**10,912**	10,355

20 Net asset value per ordinary share

The net asset value per ordinary share is based on the net assets attributable to the ordinary shares of £403,420,000 (2012: £279,926,000) and on the 74,701,796 ordinary shares in issue at 31 May 2013 (2012: 74,741,796).

An alternative net asset value per ordinary share can be calculated by deducting from the total assets less current liabilities of the Company, 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 51). The net asset value per ordinary share at 31 May 2013 calculated on this basis was 535.0p (2012: 367.9p).

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:

	2013 £'000	2012 £'000
Net assets attributable to the ordinary shares at 1 June	**279,926**	298,184
Net gains/(losses) for the year	**127,718**	(14,622)
Ordinary dividend paid in the year	**(4,109)**	(3,146)
Dividends unclaimed after 12 years	**5**	–
Buy-backs of ordinary shares	**(120)**	(490)
Net assets attributable to the ordinary shares at 31 May	**403,420**	279,926

21 Capital commitments and contingent liabilities

Capital commitments

There were no capital commitments as at 31 May 2013 (2012: £nil).

Contingent liabilities

There were no contingent liabilities in respect of sub-underwriting commitments as at 31 May 2013 (2012: £nil).

Notes to the Financial Statements

continued

22 Transactions with the Manager

Under the terms of an agreement dated 29 September 2006, the Company has appointed wholly owned subsidiaries of Henderson Group plc ('Henderson') to provide investment management, accounting, administrative and company secretarial services. Henderson has contracted with BNP Paribas Securities Services to provide accounting and investment administration services.

Details of the fee arrangements for these services are given on pages 24 and 25 in the Directors' Report. The management fees payable to Henderson under this agreement in respect of the year ended 31 May 2013 were £1,206,000 (2012: £1,008,000) of which £133,000 was prepaid at 31 May 2013 (2012: prepaid £101,000). VAT is no longer payable on management (including performance) fees.

The performance fee payable to Henderson in respect of the year ended 31 May 2013 is £2,000,000 (2012: £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 2013 amounted to £28,000 (including VAT) (2012: £18,000), of which £7,000 was outstanding at 31 May 2013 (2012: £3,000).

The compensation payable to key management personnel in respect of short term employment benefits was £103,000. In practice this disclosure relates wholly to the fees of £103,000 payable to the directors in respect of the year (2012: £110,652); the directors are all non-executive and receive no other compensation. The Directors' Remuneration Report on pages 26 and 27 provides details. The Company has no employees.

23 Value Added Tax on management fees

A decision of the European Court of Justice in 2007 that Value Added Tax ('VAT') should not be charged on fees paid for management services provided to investment trust companies, resulted in the Company receiving, over the three financial years up to 31 May 2010, refunds of VAT totalling £2,943,000 (relating to management fees paid during the periods 1990 to 1996 and 2000 to 2007) and £985,000 of simple interest on those VAT refunds. The write-backs of VAT were allocated between revenue return and capital return according to the allocation of the amounts originally paid. The interest paid by HM Revenue & Customs ('HMRC') on the VAT recovered was included in other income.

There remain outstanding claims relating to the period 1996 to 2000 and claims for compound interest from 1990 onwards. No amounts have been recognised in respect of these claims as it is currently uncertain whether any further amounts will be recovered. The Company is a participant in an on-going action against HMRC, led by PricewaterhouseCoopers LLP, to recover these amounts.

24 Post Balance Sheet event

Since the year end, the Board has agreed a revision to the accounting policy and, with effect from 1 June 2013, all investment management fees and finance costs will be allocated 70% to the capital account and 30% to the revenue account.

General Shareholder Information

Release of results

Half Year results are announced in January. Full year results are ordinarily announced in August.

AGM

The Annual General Meeting will be held in London on 4 October 2013.

Dates of dividend and interest payments

Ordinary shares: final dividend announced ordinarily in August and paid in October.

10.5% Debenture Stock 2016: interest paid on 31 May and 30 November.

Final dividend warrants and tax vouchers

Dividend warrants and tax vouchers for the 2013 final dividend will be posted on 9 October 2013 to shareholders on the register on 20 September 2013. The dividend will be paid on 11 October 2013, 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 page 56 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.hendersoninvestmenttrusts.com**

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 Action on Hearing Loss – formerly 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 Products (and who were formerly participants in the Share Plan or the ISA managed by Henderson) 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 M B Cayzer-Colvin *(Chairman)*
B Hollond *(Chairman of the Audit Committee)*
J J Nelson *(Senior Independent Director)*
K E Percy
M A Sieghart
D J Lamb (appointed 1 August 2013)

Manager
Henderson Global Investors Limited,
represented by Neil Hermon

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

Corporate Company Secretary
Henderson Secretarial Services Limited

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 707 1057

Custodian
JPMorgan Chase Bank
25 Bank Street
Canary Wharf
London E14 5JP

Independent Auditors
PricewaterhouseCoopers LLP
7 More London Riverside
London SE1 2RT

Broker
Numis Securities
The London Stock Exchange Building
10 Paternoster Square
London EC4M 7LT

Solicitors
Slaughter and May
One Bunhill Row
London EC1Y 8YY

Share Identification Codes
SEDOL: 0906506
ISIN: GB0009065060
EPIC: HSL

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