The Henderson Smaller Companies Investment Trust plc

Report and Accounts for the year ended 31 May 2008

The Henderson Smaller Companies Investment Trust plc

The objective of The Henderson Smaller Companies Investment Trust plc is to maximise shareholders' total returns by investing mainly in smaller companies that are quoted in the United Kingdom. Our portfolio of investments is managed by a team of specialists at Henderson Global Investors. At 31 May 2008 there were 116 holdings with a market value of £287 million. As an investment trust, we are exempt from tax on the capital gains arising on the investments.

Investment selection

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

Benchmark

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

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.

The shares are easy to buy

The Company's shares can be bought through Itshenderson (contact details are given on page 52).

Website

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

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

Financial highlights

	31 May 2008	31 May 2007
Total net assets	**£255 million**	£340 million
Net asset value per ordinary share	**317.6p**	392.1p
Net asset value per ordinary share on an alternative basis*	**310.9p**	385.1p
Market price per ordinary share	**252.0p**	323.5p
Total return per ordinary share	**(79.3)p**	104.7p
Revenue return per ordinary share	**4.6p**	2.1p
Dividend per ordinary share	**2.2p**	1.7p
Special dividend per ordinary share	**1.6p**	–
Total dividend per ordinary share	**3.8p**	1.7p
Gearing†	**12.3%**	12.0%

*Calculated by deducting from the net assets the debt at its market value, as disclosed in note 20 on page 48.

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

Performance

Comparative total return figures for periods ended 31 May 2008:

	1 year %	2 years %	3 years %	5 years %	10 years %
The Henderson Smaller Companies Investment Trust plc: net asset value per share*	(18.6)	13.1	48.5	162.8	(3.9)
The Henderson Smaller Companies Investment Trust plc: share price	(21.7)	9.5	51.3	170.1	(8.6)
Hoare Govett Smaller Companies (excluding investment companies) Index	(21.2)	4.5	36.0	114.3	99.5
FTSE SmallCap (excluding investment companies) Index	(30.6)	(13.5)	5.9	51.5	28.9
FTSE All-Share Index	(7.1)	13.0	37.1	84.6	48.3

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

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

Historical record

Year end	Market price per ordinary share in pence	Net asset value per ordinary share in pence	Earnings per ordinary share in pence	Net dividends per ordinary share in pence
31 May 1998	295.5	344.1	3.10	3.95
31 May 1999	243.5	311.8	2.33	3.95
31 May 2000	341.5	423.8	1.14	0.50
31 May 2001	278.0	328.9	(0.34)	0.50
31 May 2002	150.5	181.1	(0.77)	0.50
31 May 2003	96.0	121.8	0.20	0.50
31 May 2004	134.75	172.1	1.17	1.00
31 May 2005	169.5	214.5*	1.44*	1.15
31 May 2006	232.75	280.4*	1.83*	1.35
31 May 2007	323.5	392.1	2.12	1.70
31 May 2008	**252.0**	**317.6**	**4.64**	**3.80†**

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

†Including a special dividend of 1.60p.

Contents

Chairman's Statement

Dudley Fishburn

The year has been a difficult one. The net asset value per share at our year-end was 317.6p. This represents a negative total return of 18.6%. By comparison, our benchmark index returned a negative 21.2%. These figures are disappointing. However, our out-performance of the benchmark shows the strength of our management team, who have beaten the benchmark for five consecutive years.

In the directors' report on page 11 we give an attribution of performance. It shows that stock selection was strongly positive, but was partially offset by the effect of gearing.

Revenue and dividend

The revenue return per share was 4.64p, more than double the 2.12p of the previous year. In part, this reflects the growth in income from our investments but, as I reported at the half-year stage, the most significant factor has been the expected refund of VAT borne on management fees. We propose a final dividend for the year of 2.20p per share (an increase of 29%) excluding the VAT refund and a special dividend of 1.60p per ordinary share in respect of the VAT refund. Both payments are subject to shareholder approval at the Annual General Meeting in September.

Share buy-backs

During the year we bought back 6.2 million shares, equivalent to about 7% of those in issue at 31 May 2007, at an average discount (calculated by valuing the debenture stock at par) of just over 18%. Despite the volume of share buy-backs, our Company remains one of the larger constituents of its sector.

Board composition

As announced last year, Max Taylor will retire as a director at the conclusion of the Annual General Meeting. With his business expertise, broad interests and alert attention to detail, he has contributed to the Board for fifteen years; we shall miss him and wish him well for the future. I am pleased to report that James Nelson has agreed to take on the role of Senior Independent Director.

Mary Ann Sieghart was appointed to the Board in July 2008. She is well known as a journalist and commentator and was Assistant Editor of The Times until last year. I am delighted that she has joined us. She is new to investment trusts and so brings a fresh, independent and enquiring mind that adds diversity to the Board.

Investment policy

The UKLA Listing Rules now allow investment trust companies to use short selling to enhance portfolio returns. The Board has concluded that the Company should be positioned to benefit from this.

The primary benefits of using these instruments will result from selling short the shares of companies that the Manager believes are overvalued or which have flawed business models and are likely to fall in value. Additionally, it will allow more flexibility in managing the Company's gearing.

We are therefore proposing that the Company's investment policy be modified to allow the Manager to invest in short positions, including financial derivative instruments such as CFDs (contracts for difference). This will enhance the range of tools that the Manager has available with which to maximise returns for shareholders. In the near term at least, this will be an enabling measure: our future will continue to be based on a portfolio of long term investments, actively managed to outperform the market.

Shareholder approval of the new policy will be sought by means of an ordinary resolution at the Annual General Meeting. Further details are given on pages 9 and 10 and in the accompanying circular to shareholders, which includes the Notice of Annual General Meeting.

Management and performance fees

The Board and the Manager have reviewed the management fee arrangements for the three-year period beginning on 1 June 2008. We have agreed to leave the base management fee unchanged (at 0.35% per annum of the assets under management) but will increase the incentive that the performance fee arrangements are intended to provide. The changes are an increase in the cap on the total management fees payable in any one accounting year, from 1.0% to 1.5% of the Company's average net assets, and an increase in the cash cap from £2 million to £4 million. We have also agreed to pay a performance fee for out-performance in years when absolute performance is negative (but at two thirds of the rate that would otherwise apply and subject to a cap of 1.2% of average net assets). These changes reflect the Board's focus on long term out-performance of the benchmark. A full summary is set out in the Directors' Report on page 15. Shareholder approval of these changes will be sought by means of an ordinary resolution an additional General Meeting of the Company to be held as soon as practicable. Further details will be sent to shareholders with the notice of that meeting.

Articles of Association

We are proposing certain amendments to our Articles of Association. Firstly, we are proposing to adopt new Articles of Association that reflect the changes to company law made by the Companies Act 2006, some important provisions of which come into effect on 1 October 2008. Secondly, we are proposing the removal of the current Article 138 regarding the investment of monies. Shareholder approval of the new Articles will be sought by means of two separate special resolutions at the Annual General Meeting. The changes are explained in the accompanying circular to shareholders.

It is our intention to offer investors an attractive and efficient means of investing in UK smaller companies. We have a good track record with a 162.8% total return over the past five full years that our Fund Manager has been in place. In bad times we aim to do better than our competitors; and likewise in good times. That is why you invest in this Trust.

J Dudley Fishburn
Chairman
12 August 2008

Fund Manager's Review

Neil Hermon

Analysis of the portfolio by sector

	31 May 2008 %	31 May 2007 %
Industrials	**47.9**	44.7
Financials	**11.5**	15.2
Consumer Services	**10.6**	13.8
Technology	**9.7**	9.5
Oil & Gas	**7.4**	5.0
Basic Materials	**6.6**	2.8
Health Care	**3.3**	3.8
Consumer Goods	**3.0**	5.2
	100.0	100.0

Market – year in review

After four years of excellent returns, both in a relative and an absolute sense, the year under review turned out to be a difficult one. The emergence of a global credit crunch, a run-on and subsequent nationalisation of a major UK High Street bank, rapidly escalating oil and food prices and faltering Western economies provided a poor backdrop for equity markets. Unsurprisingly in this environment smaller companies had a tough time and underperformed large companies by over 12%.

Fund performance

The Trust had a mixed year in performance terms – falling in absolute terms but outperforming on a relative basis. The net asset value fell 18.6%, on a total return basis, which comes after a 224.4% rise over the previous four years. This compares to a fall of 21.2% (total return) from the Hoare Govett Smaller Companies Index (excluding investment companies) and a fall of 30.6% (total return) from the FTSE SmallCap Index (excluding investment companies). The Trust benefited from a combination of underlying positive portfolio performance and net asset value enhancing buy-backs. Gearing in the Trust was a negative contributor. The year under review was the fifth consecutive year of outperformance of our benchmark, the Hoare Govett Smaller Companies Index (excluding investment companies), during which period the Trust has produced total returns of 162.8% and outperformance of 48.5%.

In terms of positive contributors to fund performance, we saw excellent performances from Wellstream, the manufacturer of flexible pipes for the oil industry, Playtech, a provider of software for the on-line gaming industry, and John Wood Group, the oil service company. These companies all produced strong earnings growth above market expectations. Our holdings in Expro International, the oil service company, and Enodis, the catering equipment manufacturer, also saw big gains after takeover bids. W S Atkins, the engineering consultancy, performed strongly after it removed itself from running part of the London Underground, which allowed the market to appreciate strong trading at its core operations. International Ferro Metals rose 49% after the company began production and the price of ferro-chrome, its key output, rose sharply.

Our exposure to stocks involved in the UK housing market proved to be a negative drag on performance. Housebuilders Bellway and Bovis, as well as buy to let mortgage provider Paragon and residential property investor Grainger Trust, all had disappointing years. The housing market has clearly deteriorated farther and faster than we expected and the outlook is for further price declines. The share prices of these companies, in our view, now reflect much of the potential downside and we intend holding on for the recovery. Additionally, Informa, the business to business information provider and publisher, fell 32% as the market grew concerned over the vulnerability of profitability in a cyclical downturn and the company's high level of debt. We believe these fears are overstated and Informa will prove far more resilient than feared.

Portfolio activity

Trading activity in the portfolio implies an average holding period of five years. This is consistent with our approach which is to consider our investments as long term in nature and to avoid unnecessary turnover. The focus has been on adding stocks to the portfolio that have good growth prospects, sound financial characteristics and strong management, at a valuation level that does not reflect these strengths. Likewise we have been employing strong sell disciplines to cut out stocks that fail to meet these criteria.

Fund Manager's Review

continued

In the year we have added to a number of existing positions in our portfolio. These include Melrose, the engineering conglomerate, Intermediate Capital, a provider of mezzanine finance to the LBO market, Victrex, a manufacturer of speciality chemicals, and WSP, an international engineering consultancy. All these companies have strong prospects which should lead to strong share price performance in the coming year.

New additions to our portfolio included:

Care UK – this company provides health and social care services. The company develops and operates purpose-built nursing homes for the frail, elderly, mentally ill and for those with learning disabilities under long term contracts with Health Authorities and Social Services. This is a company we have tracked for some time, attracted by its strong and steady growth, defensive earnings profile and asset backing. A U-turn by the Government on the award of independent sector treatment centre contracts caused its share price to fall and provided us with an attractive entry point.

Croda – this company manufactures a diverse range of chemical and chemical products, including oleo and industrial chemicals. Croda acquired Uniqema in June 2006 from ICI which significantly boosted its position in oleo chemicals (used in personal care products). This deal has been a huge success, with Croda's excellent management team improving returns at Uniqema significantly. More synergy benefits from the deal are anticipated, boosting growth.

Oxford Instruments – this company produces advanced instrumentation equipment. Its products are used for scientific research, industrial and chemical analysis and diagnostic imaging. The company has always had an excellent reputation for technical excellence and innovation but had failed to translate this into financial success. A recent change of management has re-invigorated the business and has set an ambitious five year plan to grow sales significantly whilst improving margins materially. We believe these targets are achievable, providing material upside to the share price.

Senior – this company manufactures specialist engineering products for use in the aerospace, automotive and industrial markets. Products include flexible tubing, fluid transfer devices, de-icing systems and components for jet engines. Senior has an impressive track record and with strong trading momentum, full order books and exposure to growing aerospace programmes the future looks bright.

As well as making new investments we sold positions in companies that no longer fit our stringent quality threshold. In particular sales were made where our expectations for the company have not been fulfilled, such as Carter & Carter where a shock profit warning raised concerns over management control of the business, the pace of acquisitive activity and cashflow. The sale proved timely as the company subsequently went into receivership. We also sold our holding in Game Group, the electronic games retailer, where, although current trading is very buoyant, we are concerned that an increase in competition and a turndown in the games cycle will hit profitability.

Strong IPO (initial public offering) activity has been a feature of the UK market in the past few years. This reflects a desire for venture capitalists to trade on their more successful investments and a rush of new, young companies looking to raise capital for expansion. In the past year IPO activity has tailed off, especially as market conditions have become more difficult. IPOs that the Trust participated in included Eaga, a company which helps cut energy poverty among the most economically disadvantaged portion of the UK population, CVS Holdings, a veterinary chain, GlobeOp Financial Services, a provider of back office services to the hedge fund industry, and Valiant Petroleum, a North Sea oil and gas explorer and developer.

Although market conditions and the ability to raise debt have worsened over the year, take-over activity has remained strong across the small and mid cap space. This has come from a combination of foreign and UK corporates and private equity and reflects, to some extent, the openness of the UK stock market. The Trust benefited from the following completed bids during the year:

Coda (acquired by Unit 4 Aggresso – Holland)
Fun Technologies (acquired by Liberty Media – US)
Glotel (acquired by Spring Group – UK)
Gyrus (acquired by Olympus – Japan)
Inspicio (acquired by 3i – UK Private Equity)
Sondex (acquired by GE – US)
Umbro (acquired by Nike – US)

Market outlook

In last year's market outlook we expressed some concern over the short term outlook for the market. However, we were clearly not cautious enough. As the year progressed the newsflow became steadily worse, with the US sub-prime mortgage crisis progressing to a fully fledged credit crisis. This combined with rampant commodity prices, a weakening housing market and a consumer under significant pressure has led to a steadily weakening economic environment. US and UK economic growth is slowing rapidly. Western European economies are holding up better (with the exceptions of Spain and Ireland) whilst the emerging economies of Asia Pacific, India and Eastern Europe so far remain relatively unscathed.

Fund Manager's Review
continued

It is difficult to be positive about the economic situation in the short term. The rise in inflation is limiting central banks' ability to cut interest rates. Therefore there is little prospect of relief for the hard pressed consumer, especially given the weakness of the housing market and the rise in input costs. In addition there is little ability for the UK Government to provide a fiscal stimulus given the poor state of public finances. The UK economy is therefore likely to remain weak for the foreseeable future. In this environment, with weakening demand and input cost rises, corporate profitability will remain under pressure. We will continue to ensure that the investments we make are in sound companies with strong balance sheets. Areas such as health care, exporters that are exposed to emerging economies and companies with long visible order books will be prime areas of focus.

However there are reasons to be positive. The fundamentals for smaller companies remain sound. Valuations are attractive and certainly a lot cheaper than a year ago, although not at a discount to large caps. Corporate balance sheets and cashflows are in generally good order. Meanwhile there continues to be corporate activity, with foreign corporates in particular looking to pick up bargains in the quoted sector.

In conclusion, whilst recognising this may be a difficult year for the economy, a well selected portfolio of UK smaller companies should provide a reasonable return. Our investments are generally trading well, are soundly financed and attractively valued. Additionally the small cap market continues to throw up exciting growth opportunities in which the Trust can invest. Whilst it is right to be cautious over short term prospects, I am optimistic on a medium term view.

Neil Hermon
Fund Manager
12 August 2008

Investment Portfolio
at 31 May 2008

	Valuation as at 31 May 2007● £'000	**Valuation as at 31 May 2008● £'000**	**% of portfolio**
WSP	12,932	**10,650**	3.71
W S Atkins	17,656	**9,794**	3.41
Informa	14,172	**9,414**	3.28
Interserve	8,172	**7,875**	2.75
Domino Printing	7,956	**7,224**	2.52
Spectris	8,892	**6,772**	2.36
Balfour Beatty	7,015	**6,217**	2.17
International Ferro Metals	3,413	**6,080**	2.12
Laird	7,415	**5,704**	1.99
Intermediate Capital	5,392	**5,689**	1.98
10 largest	93,015	**75,419**	26.29
Carillion		5,348	1.86
Wellstream		4,879	1.70
Mouchel		4,767	1.66
Victrex		4,707	1.64
Premier Oil		4,647	1.62
Bellway		4,230	1.48
Aviva		4,100	1.43
Phoenix		3,910	1.36
Expro International		3,878	1.36
Rotork		3,859	1.35
20 largest		119,744	41.75

	Valuation as at 31 May 2008 £'000	**% of portfolio**
Anite	3,856	1.34
*Synergy Healthcare	3,715	1.30
SIG	3,685	1.29
E2V Technologies	3,625	1.26
VT Group	3,597	1.25
Charter	3,537	1.23
RPS	3,496	1.22
BSS Group	3,411	1.19
Croda	3,295	1.15
*Playtech	3,163	1.10
30 largest	155,124	54.08
Ultra Electronic	3,055	1.06
Enodis	3,040	1.06
Costain	2,943	1.03
Chemring	2,934	1.02
Chloride	2,899	1.01
Melrose	2,720	0.95
Shaftesbury	2,634	0.92
Capital & Regional Properties	2,514	0.88
Grainger	2,408	0.84
Imperial Energy	2,401	0.84
40 largest	182,672	63.69

Investment Portfolio

at 31 May 2008 continued

	Valuation as at 31 May 2008 £'000	% of portfolio
Bovis Homes	2,398	0.83
*RWS Holdings	2,359	0.82
NCC Group	2,310	0.81
Big Yellow	2,272	0.79
John Wood	2,230	0.78
Restaurant Group	2,171	0.76
Paragon	2,113	0.74
Meggitt	2,087	0.73
Fidessa	2,078	0.72
Savills	2,050	0.71
50 largest	204,740	71.38
Babcock International	2,028	0.71
Forth Ports	2,019	0.70
Keller	1,992	0.69
Gem Diamonds	1,984	0.69
Renishaw	1,971	0.69
*IBS Opensystems	1,955	0.69
Talvivaara Mining	1,900	0.67
CSR	1,890	0.66
Headlam	1,878	0.65
Care UK	1,814	0.63
60 largest	224,171	78.16
ITE Group	1,768	0.62
Southern Cross Healthcare	1,747	0.61
Robert Walters	1,735	0.60
Euromoney Institutional Investor	1,723	0.60
Senior	1,673	0.58
Venture Production	1,663	0.58
Consort Medical	1,650	0.58
Rathbone Brothers	1,625	0.56
Speedy Hire	1,592	0.55
Greene King	1,566	0.55
70 largest	240,913	83.99
Ricardo	1,517	0.53
Halford	1,515	0.53
*ACP Capital	1,483	0.52
Bluebay Asset Management	1,435	0.50
EAGA	1,400	0.49
John Menzies	1,384	0.48
Hampson Industries	1,349	0.47
Chrysalis	1,314	0.46
*Valiant Petroleum	1,304	0.45
Telecity	1,265	0.44
80 largest	254,879	88.86

	Valuation as at 31 May 2008 £'000	% of portfolio
*CVS	1,265	0.44
Morgan Sindall	1,250	0.44
*Just Retirement	1,248	0.44
GlobeOp Financial Services	1,213	0.42
*Hansteen	1,212	0.42
UTV Media	1,199	0.42
Kofax	1,129	0.39
Tribal	1,119	0.39
*Shed Media	1,117	0.39
*Goals Soccer Centres	1,117	0.39
90 largest	266,748	93.00
Oxford Instruments	1,102	0.38
*The Clapham House	1,099	0.38
RM	1,055	0.37
Hansard	1,044	0.37
Kenmare Resources	983	0.34
*Carluccios	979	0.34
Psion	959	0.33
Aberdeen Asset Management	937	0.33
Jarvis	875	0.31
Raymarine	859	0.30
100 largest	276,640	96.45
Chime Communications	839	0.29
*Majestic Wine	836	0.29
DTZ Holdings	834	0.29
Ted Baker	834	0.29
Hargreaves Lansdown	824	0.29
*Augean	774	0.27
LSL Property Services	707	0.24
*Next Fifteen Communications	686	0.24
New Star Asset Management	677	0.24
Northgate	676	0.24
110 largest	284,327	99.13
Ennstone	609	0.21
Superglass Holdings	474	0.17
*Proximagen Neuroscience	457	0.16
Topps Tiles	439	0.15
*Powerleague	426	0.15
*Pure Wafer	87	0.03
TOTAL	**286,819**	**100.00**

There were no convertible or fixed interest securities at either 31 May 2008 or 31 May 2007.

*quoted on the Alternative Investment Market

•The ten largest holdings at 31 May 2008 were all constituents of the portfolio at 31 May 2007 but were not all among the ten largest holdings at that date. The comparative figures have not been adjusted for any acquisitions or disposals that may have taken place during the year.

Directors


Dudley Fishburn


Max Taylor


Sally Davis


James Nelson


Keith Percy


Mary Ann Sieghart

Dudley Fishburn (Chairman) is a director of HSBC Bank plc. He is an independent director of Beazley Group plc and Philip Morris International Inc. He is 62 and joined the Board in 1996. He was for nine years a Member of Parliament and is a former Treasurer of the National Trust and executive editor of The Economist.

Max Taylor was until 2007 Deputy Chairman of Aon UK Limited. He is 60 and joined the Board in 1993. He is the Company's Senior Independent Director. He was formerly an executive director of Willis Corroon Group plc and was Chairman of Lloyd's from 1998 to 2001. He is Chairman of the Mitsui Sumitomo Insurance London Companies and a director of the Financial Services Compensation Scheme. He is also Chairman of the Council of the University of Surrey. He will retire at the conclusion of the Annual General Meeting on 26 September 2008.

Sally Davis is CEO, BT Wholesale, one of the four operating divisions of BT Group plc. She is 54 and joined the Board in 2001. She became Chairman of the Audit Committee in November 2003. A former Vice President of Bell Atlantic and NYNEX, she is a Fellow of University College London. She is also a director of Logitech International, a Swiss company quoted on Nasdaq.

James Nelson is 61 and joined the Board in 2002. He was formerly an executive partner of Graphite Capital and is a former chairman of the BVCA. He is a director of Intermediate Capital Group PLC.

Keith Percy is 63 and joined the Board on 21 July 2006. He is the Executive Chairman of Société Générale Asset Management UK Limited and a director of Société Générale Asset Management SA, its parent company. He is also Chairman of Brunner Investment Trust plc and a director of JPMorgan Fleming Japanese Investment Trust plc and Standard Life Equity Income Trust plc.

Mary Ann Sieghart is 47 and joined the Board on 18 July 2008. She was Assistant Editor of The Times from 1998 to 2007. She is also a former City Editor and Lex columnist. She sits on the Advisory Council of Into University and is a Trustee of the Radcliffe Trust and Vice-President of the National Association for Gifted Children. She presents 'Newshour' on the BBC World Service.

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

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

Management


Neil Hermon


Geoffrey Rice

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

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

Directors' Report

The directors present the audited accounts of the Group and their report for the year ended 31 May 2008.

Activities and business review

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

Status

The Henderson Smaller Companies Investment Trust plc ("the Company") is incorporated in England and Wales and domiciled in the United Kingdom. It is an investment company as defined in section 266 of the Companies Act 1985 and section 833 of the Companies Act 2006 and operates as an investment trust in accordance with section 842 of the Income and Corporation Taxes Act 1988. HM Revenue & Customs approval of the Company's status as an investment trust has been received in respect of the year ended 31 May 2007, although approval for that year is subject to review should there be any subsequent enquiry under Corporation Tax Self Assessment. The Company will continue to seek approval under section 842 of the Income and Corporation Taxes Act 1988 each year. The Company has no employees.

ISAs

With effect from 6 April 2008:

- the annual Individual Savings Account (ISA) investment allowance has been increased to £7,200; and
- all existing PEP accounts have automatically become Stocks and Shares ISAs and are subject to ISA rules and regulations.

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

Life of the Company

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

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

A statement on going concern is set out on page 25.

Business review

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

Investment objective

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

Investment policy

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

Diversification

The Company maintains a diversified portfolio, of which the analyses on pages 4, 6 and 7 provide illustration. The portfolio is actively managed by the Manager, which provides regular

Directors' Report
continued

reports on investment activity and portfolio construction to the directors at and between Board meetings.

The Company will not invest more than 5 per cent of its total gross assets, calculated as at the time of investment (or additional investment), in any one holding. The Company will not make any investment that, calculated at the time of investment (or additional investment), would result in it holding more than 10 per cent of an investee company's equity. The Board may give approval to the Manager to exceed these limits to as far as 10 per cent and 20 per cent respectively but only in exceptional circumstances.

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

Subject to shareholder approval at the Annual General Meeting on 26 September 2008, the Company may invest in short positions, including via financial derivative instruments, such as contracts for difference ("CFDs"). The gross notional underlying exposure to any one short position will not exceed 5 per cent of total gross assets, calculated as at the time of investment (or additional investment). The sum of the gross notional underlying exposures of all of the short positions will not exceed 30 per cent of total gross assets, calculated as at the time of investment.

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

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

Further information about the proposed change of investment policy is given in the accompanying circular to shareholders, which includes the Notice of Annual General Meeting.

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 has remained unchanged throughout the year ended 31 May 2008.

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 management team whose role is to pursue the Company's objective within parameters determined by the Board. These parameters reflect the Board's assessment of the risks facing the Company, including the importance of retaining the Company's taxation status as an investment trust. As an investment company the Company invests its shareholders' funds in the securities of other companies. In addition it has the ability to borrow money (termed "gearing") in order to increase the funds available for investment. It does this by means of both fixed borrowings (its £20 million issue of 10½ per cent debenture stock, repayable in 2016) and short term borrowings (drawn down from facilities currently provided by The Royal Bank of Scotland plc and ING Bank N.V., London Branch with an aggregate capacity of £30 million). In the event that the investment outlook becomes unfavourable, the Company may reduce its gearing to nil. However, it would expect the shareholders' funds to remain invested in all but unusual circumstances.

Risks and uncertainties
The principal risks and uncertainties facing the Company relate to the activity of investing in the shares of smaller companies. Although the Company invests almost entirely in securities that are quoted on recognised markets, share prices may move rapidly and it may not be possible to realise an investment at the Manager's assessment of its value. The companies in which investments are made may operate unsuccessfully, or fail entirely, such that shareholder value is lost. The Company is

Directors' Report

continued

also exposed to the operational risk that one or more of its suppliers may not provide the required level of service. The Board considers regularly the principal risks facing the Company in order to mitigate them as far as practicable.

A fuller description of the principal risks and uncertainties is given on pages 13 and 14.

Capital

At 31 May 2008 the Company had in issue 80,449,030 ordinary shares of 25p each. The market price per share at that date was 252.0p, giving the Company a market capitalisation of £202.7 million. Equity shareholders' funds totalled £255.5 million, the net asset value per share being 317.6p per share. Accordingly, the market price per share stood at a discount of 20.7% to the net asset value. The Company seeks annually shareholder authority to buy back its shares in the market for cancellation. During the year the Company bought back 6,177,000 of its ordinary shares, representing 7.1% of the ordinary shares in issue at 31 May 2007. These purchases were made at an average discount of 18.2%; they cost £16.6 million excluding stamp duty and were funded from the realised capital reserves.

Performance

The Company had a successful year in terms of relative performance, although in absolute terms the return on capital was negative. The stock market fell over the year as a whole but, despite its gearing, the Company outperformed its benchmark, the Hoare Govett Smaller Companies (excluding investment companies) Index on a total return basis. The following table sets out, with comparatives, key indicators of performance:

	At 31 May 2008	At 31 May 2007	% change
Shareholders' funds	**£255,471,000**	£339,700,000	–24.8
Net asset value per share	**317.6p**	392.1p	–19.0
Market price per share	**252.0p**	323.5p	–22.1
	Year ended 31 May 2008	Year ended 31 May 2007	% change
Revenue return per share	**4.64p**	2.12p	
Capital return per share	**(83.96)p**	102.59p	
Total return per share	**(79.32)p**	104.71p	
Dividend per share	**2.20p**	1.70p	+ 29.5
Special dividend per share	**1.60p**	–	

Performance attribution

	Note	**Year ended 31 May 2008**
Net asset value per share total return		(18.6)%
Benchmark total return	1	(21.2)%
Relative performance		**2.6%**
Made up:		
Stock selection		4.9%
Gearing		(3.5)%
Share buy-backs		1.1%
Expenses		(0.5)%
Write-back of VAT		0.6%
		2.6%

Notes:

1. The benchmark is the Hoare Govett Smaller Companies (excluding investment companies) Index.
2. Source: Henderson Global Investors Limited.

Assets

The Group's net assets fell during the year from £339.7 million to £255.5 million. The net asset value per ordinary share fell during the year from 392.1p to 317.6p.

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 £3,109,000, the management fee totalled £1,156,000 and other expenses totalled £373,000. These figures include VAT where applicable. No performance fee is payable because, although the Company outperformed its benchmark index, both the net asset value per share and the market price per share were lower at the end of the year than at the start of the year. During the year an amount of £1,749,000 was recognised as recoverable in respect of VAT borne on investment management fees in past years; this amount has been accounted for as a negative expense. The transaction costs, which include stamp duty and totalled £382,000, are included within the purchase costs or netted against the sales proceeds of investments.

Directors' Report

continued

The total expense ratio ("TER") is a measure of the Company's running costs. The definition used for the figures below is "the total of the management fees and other administrative expenses as a percentage of the average of shareholders' funds at the beginning and end of the year". This definition excludes borrowing costs and transaction costs (and, in respect of the year under review, the write back of VAT) but includes any performance fee. For the year ended 31 May 2008 the TER is 0.51% (2007: 1.31%). The main reason for the fall in the TER is the absence of a performance fee.

Revenue and dividend

The Company's investment income and other revenue totalled £7,194,000 (2007: £6,802,000). After deducting expenses the revenue profit for the year was £3,868,000 (2007: £1,956,000).

The Board seeks to increase each year the dividend per ordinary share that it puts to the shareholders for approval. The amount available for distribution represents the investment income of the Company less all borrowing costs, management fees and administrative expenses (except the performance fee). The difference between the totals of income and expenditure may vary from year to year because the Company's most significant costs are not related at all closely to the investment income. Accordingly, it is not possible to be certain that a progressive dividend policy can be maintained.

In respect of the year under review the directors recommend a final dividend of 2.20p per ordinary share (2007: 1.70p). Subject to approval at the Annual General Meeting, the final dividend will be paid on 3 October 2008 to shareholders on the register of members on 29 August 2008.

In addition, to reflect the exceptional benefit of the write-back of VAT, the directors recommend a special dividend of 1.60p, to be paid, subject to approval at the Annual General Meeting, with, and to the same timetable as, the final dividend.

Directors

The directors of the Company, as shown on page 8, are Mrs S M Davis, Mr J D Fishburn, Mr J J Nelson, Mr K E Percy, Ms M A Sieghart and Mr J M P Taylor. All served throughout the year under review, with the exception of Ms Sieghart who was appointed, after the year end, on 18 July 2008.

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

	31 May 2008 Ordinary shares of 25p	1 June 2007 Ordinary shares of 25p
With beneficial interest:		
S M Davis	**10,672**	8,950
J D Fishburn	**16,050**	14,672
J J Nelson	**45,000**	40,000
K E Percy	**2,700**	2,000
J M P Taylor	**14,785**	14,192

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 12 August 2008.

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

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

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

Mr Taylor will retire from the Board at the conclusion of the forthcoming Annual General Meeting.

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

The number of formal 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 D Fishburn	6	3	1
S M Davis	6	3	1
J J Nelson	5 of 6	3	1
K E Percy	4 of 6	2 of 3	1
J M P Taylor	5 of 6	3	1

All the above directors attended the Annual General Meeting.

Mr Fishburn and Mr Taylor stood down from the Audit Committee on 28 September 2007 but attended its subsequent meetings by invitation.

Directors' fees

A report on the directors' remuneration is set out on pages 19 and 20.

Directors' indemnity

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

Corporate governance

A formal statement on corporate governance is set out on pages 22 to 25.

Financial instruments and the management of risk

By its nature as an investment trust, the Company is exposed in varying degrees to market risk, market price risk, currency risk, interest rate risk, liquidity risk and credit risk. The Company's policies for managing these risks are outlined below and in note 16 to the financial statements on pages 42 to 46.

Principal risks and uncertainties

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

Investment activity and strategy

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

Directors' Report
continued

investment process with the Fund Manager, who attends all Board meetings, and reviews regularly data that monitors risk factors in respect of the portfolio. The Board reviews investment strategy at each Board meeting.

Portfolio and market
Market risk arises from uncertainty about the future prices of the Company's investments. This is commented on in note 16 on pages 42 to 46.

Accounting, legal and regulatory
In order to qualify as an investment trust the Company must comply with section 842 of the Income and Corporation Taxes Act 1988 ("section 842"), to which reference is made on page 9 under the heading 'Status'. A breach of section 842 could result in the Company losing investment trust status and, as a consequence, capital gains realised within the Company's portfolio would be subject to Corporation Tax. The section 842 criteria are monitored by the Manager and the results are reported to the directors at each Board meeting. The Company must comply with the provisions of the Companies Act 1985, and the Companies Act 2006 as it becomes enacted ("the Companies Acts"), and, as the Company's shares are listed for trading on the London Stock Exchange, the Company must comply with the UK Listing Authority's Listing Rules and Disclosure Rules ("UKLA Rules"). A breach of the Companies Acts could result in the Company and/or the directors being fined or becoming the subject of criminal proceedings. Breach of the UKLA Rules could result in the suspension of the Company's shares which would in turn lead to a breach of section 842. The Board relies on its company secretary and its professional advisers to ensure compliance with the Companies Acts and UKLA Rules.

Corporate governance and shareholder relations
Details of the Company's compliance with corporate governance best practice, including information on relations with shareholders, are set out in the Corporate Governance Statement on page 22 to 25.

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 Fund Services UK Limited. 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 25.

Financial
The directors have reviewed the Manager's statements on the risks associated with the Company and concur with their opinion on these risks. Further analysis of these risks can be found in note 16 on pages 42 to 46.

Donations
During the year the Company made charitable donations of £5,000 (2007: £5,000). No political donations were made (2007: £nil).

The payment of creditors
It remains the Company's policy for the forthcoming financial year to obtain the best terms for all business and therefore there is no single policy as to the terms used. In general the Company agrees with its suppliers the terms on which business will take place and it is the Company's policy to abide by such terms. There were no trade creditors at 31 May 2008 (2007: none).

Articles of Association
It is proposed to make certain changes to the Company's Articles of Association in order, firstly, to reflect the provisions of the Companies Act 2006 in so far as they apply or may apply to the Company and, secondly, to remove the current Article 138 regarding the investment of monies. Accordingly, two separate special resolutions will be put to the Annual General Meeting to be held on 26 September 2008. Details of the changes are set out in the notes to the Notice of Annual General Meeting, in the accompanying circular to shareholders.

Under the Companies Act 1985 a Company may only amend its Articles of Association if the shareholders pass a special resolution to that effect. A special resolution is passed if more

Directors' Report

continued

than 75% of the votes cast, in person or by proxy, are in favour of the resolution.

Manager

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

The management agreement between the Company and Henderson provides for the payment of a composite annual management fee, calculated as a percentage of the value of the assets under management. The management fee is calculated quarterly as a percentage of the value of the assets under management on the last day of the quarter preceding the quarter in respect of which the calculation is made. Assets under management for the purpose of calculating the management fee exclude any holdings in funds managed by Henderson. The management fee is payable quarterly in advance. Until September 2007, VAT was payable on the fee where applicable. During the year ended 31 May 2008 the percentage fee rate was 0.0875 per cent per quarter (0.35 per cent per annum).

In addition, the management agreement provides for the payment of a performance fee, calculated as 15 per cent of any outperformance of the benchmark index, on a total return basis, over the Company's accounting year. This is subject to a limit on the total management fees payable in any one year of 1.0 per cent of the average value of the net assets of the Company during the year (calculated monthly) and an absolute limit to the performance fee of £2 million in any one year. There is a further cap to the effect that any enhancement to net asset value resulting from share buy-backs in excess of 5 per cent of the opening issued share capital is excluded from the calculation of the performance fee for the year. No performance fee is payable if on the last day of the Company's accounting year the Company's share price is lower than the share price as at the preceding year end. If on the last day of the Company's accounting year the net asset value per share, calculated, in accordance with the Company's accounting policies, net of costs (including any performance fee), is equal to or lower than the net asset value per share as at the preceding year end, the performance fee payable will be restricted to such amount, if any, as will result in the net asset value per share being higher than the net asset value per share at the preceding year end. Any underperformance relative to the benchmark, or any unrewarded outperformance (for example as a result of a cap), will be carried forward and set against any outperformance or underperformance respectively in subsequent years. The net amount of outperformance or underperformance carried forward is termed the Historic Amount.

No performance fee is payable in respect of the year ended 31 May 2008 because, despite outperformance of the benchmark index, the Company's share price and net asset value per share were lower than at the end of the preceding year. A performance fee, capped at £2,000,000, was paid to Henderson in respect of the year ended 31 May 2007. The Historic Amount brought forward at 1 June 2007 amounted to £5,819,000. The Historic Amount carried forward at 31 May 2008 amounted to £13,272,000.

The management agreement provides for a formal review every three years of the fee arrangements with the Manager. The Board and Henderson have concluded the triennial review due as at 31 May 2008 and, subject to the approval of the shareholders in general meeting, have agreed to amend the performance fee arrangements in several respects, in particular to reward the Manager (but at two thirds of the rate of 15 per cent that would otherwise apply) for outperformance of the benchmark in a year when the absolute return to shareholders (whether in terms of net asset value or share price) is negative. The proposed changes, to apply with effect from 1 June 2008, are as follows:

a) the restriction whereby a performance fee is not payable if either the Company's share price is lower at the end of the accounting year than it was at the end of the preceding year or the Company's net asset value is lower at the end of the accounting year than it was at the end of the preceding year is replaced by:
b) the payment of a performance fee calculated as 10 per cent of outperformance of the benchmark index over the accounting year (on a total return basis) if the net asset

Directors' Report

continued

value at the end of the accounting year is equal to, or lower than, the net asset value at the end of the preceding accounting year;

c) the absolute limit to the performance fee payable in respect of any one year is increased from £2 million to £4 million;

d) the limit on the total management fees payable in any one year is increased from 1.0 per cent to 1.5 per cent of the average value of the net assets of the Company during the year (calculated monthly); save that there will be

e) a limit on the total management fees payable of 1.2 per cent of the average value of the net assets of the Company during the year (calculated monthly) in any year when the net asset value per share at the end of the year is equal to or lower than the net asset value per share at the end of the preceding year.

The benchmark index remains the Hoare Govett Smaller Companies (excluding investment companies) Index. No changes are proposed to the basis on which the management fee is calculated, nor to the percentage rate (0.35 per cent per annum or 0.0875 per cent per quarter) at which it is calculated.

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

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

Further information about the proposed changes to the performance fee arrangements will be given in a circular to shareholders, which will include notice of an additional General Meeting and will be sent to shareholders as soon as practicable.

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 8. Each of those directors confirms that:

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

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 2007 there were 86,626,030 shares in issue. During the year 6,177,000 shares (representing 7.1% of the number in issue at the beginning of the year) were bought back and cancelled. At 31 May 2008 the number of shares in issue, and thus the number of voting rights, was 80,449,030.

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 2007 there were 9,257 preference stock units in issue. During the year 5,000 preference stock units (representing 54% of the number in issue at the beginning of the year) were bought back and cancelled for a total consideration of £5,000. At 31 May 2008 the number of preference stock units in issue was 4,257.

Further details on the preference stock units are given in note 15 on pages 41 and 42.

Since 31 May 2008, and up to the date of this document, a further 998,984 shares have been bought back for

Directors' Report

continued

cancellation. There have been no other changes to the share capital or voting rights of the Company.

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

Substantial share interests

As at 12 August 2008 the following had declared an interest in 3% or more of the voting rights of the Company:

Shareholder	% of voting rights
M & G Investment Management Limited (direct)	11.45
Newton Investment Management Limited (indirect)	9.91
The Standard Life Investments Group (direct)	9.01
Royal London Asset Management Limited (direct)	6.56
Carrousel Capital Limited (direct)	6.46
Legal & General Investment Management Limited (direct 4.77%, indirect 0.38%)	5.15
East Riding of Yorkshire Council (direct)	4.25

The above percentages are calculated by applying the shareholdings as notified to the Company to the issued share capital as at 12 August 2008 (the shareholdings being the voting rights).

The Board is aware that, as at 31 May 2008, 4.53% of the issued share capital was held on behalf of participants in the Itshenderson Dealing Account and ISA, and on behalf of participants in other Henderson ISAs. The participants in these plans are given the opportunity to instruct the relevant nominee company to exercise the voting rights appertaining to their shares in respect of all general meetings of the Company. In accordance with the terms and conditions of Itshenderson, Henderson has stated that it will instruct its nominee company to exercise the voting rights of any shares held through Itshenderson that have not been exercised by the individual participants in Itshenderson. 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.

Preference stock

In a circular to shareholders and preference stockholders dated 24 February 1999, the Company proposed to offer to purchase for cancellation all the Company's outstanding preference stock at £1 per unit, being the par value of the preference stock units. At an extraordinary general meeting of the Company held on 22 March 1999 these proposals, together with the related changes to the Articles of Association, were approved. At 31 May 2008 acceptances had been received in respect of £870,743 of the stock, leaving £4,257 in issue. It is intended that the offer will remain open until such time as all the preference stock has been acquired and, accordingly, a resolution will be put to the forthcoming Annual General Meeting to renew the Company's powers to repurchase it.

Share buy-back facility

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 2007 a special resolution was passed giving the Company authority, until the conclusion of the Annual General Meeting in 2008, to make market purchases for cancellation of the Company's own ordinary shares up to a maximum of 12,613,489 shares (being 14.99% of the issued ordinary share capital as at 28 September 2007). As at 31 May 2008 the Company had valid authority, outstanding until the conclusion of the Annual General Meeting in 2008, to make market purchases for cancellation of 8,916,489 shares.

Since the year end a total of 998,984 shares have been bought back.

The Board considers that the Company should continue to have authority to make market purchases of its own ordinary shares for cancellation. Accordingly, a special resolution will be proposed at the forthcoming Annual General Meeting to authorise the Company to make market purchases for cancellation of up to 14.99% of the ordinary shares in issue at the date of the Annual General Meeting (equivalent to 11,909,561 ordinary shares (with a nominal value of £2,977,390) if there is no change in the issued ordinary share capital between the date of this report and the Annual General Meeting). Under the Listing Rules of the UK

Directors' Report
continued

Listing Authority, this is the maximum percentage of its equity share capital that a company may purchase through the market pursuant to such authority.

The directors believe that buying back the Company's own shares in the market, at appropriate times and prices, is in the best interests of shareholders generally. The Company will make purchases within guidelines set from time to time by the Board and if or when market conditions are suitable, with the aim of maximising the benefit to the remaining shareholders. The directors will not use this authority unless to do so would result in an increase in the net asset value per ordinary share. Shares will not be bought back at a price that is less than 25p (the nominal value) or more than 5 per cent above the average middle market price of the shares over the preceding five business days. The directors intend to seek a fresh authority at the annual general meeting in 2009.

By order of the Board
G S Rice
For and on behalf of Henderson Secretarial Services Limited,
Secretary
12 August 2008

Directors' Remuneration Report

Introduction

The Directors' Remuneration Report ("the Report") is prepared in accordance with Schedule 7A of the Companies Act 1985 ("the Act") in respect of the year ended 31 May 2008. An ordinary resolution to receive and approve the Report will be put to the Annual General Meeting on 26 September 2008. The Act requires the auditors to report to the Company's members on certain parts of the Report and to state whether in their opinion those parts of the Report have been properly prepared in accordance with the Act. Therefore the Report has been divided into separate sections for audited and unaudited information.

UNAUDITED INFORMATION

Consideration by the directors of matters relating to directors' remuneration

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

Statement of the Company's policy on directors' remuneration

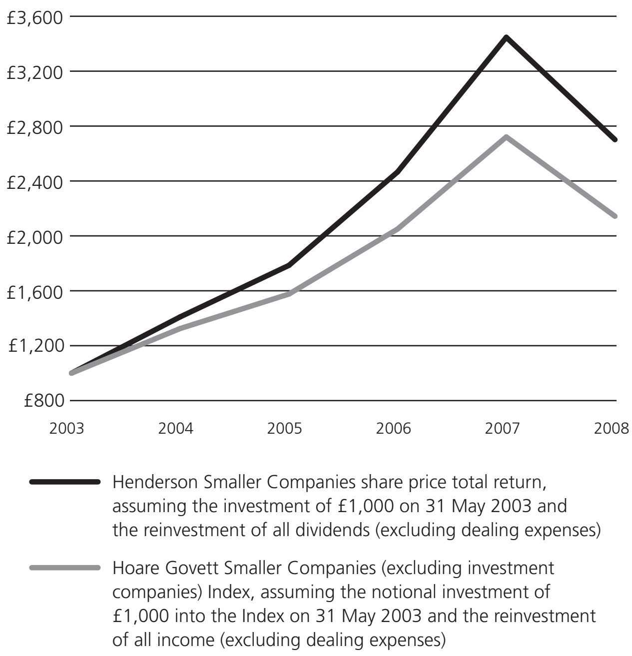
The Board consists entirely of non-executive directors who meet at least five times a year to deal with the important aspects of the Company's affairs. New directors are appointed with the expectation that they will serve for a period of three years. Directors' appointments are reviewed formally every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

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

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

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

Performance graph



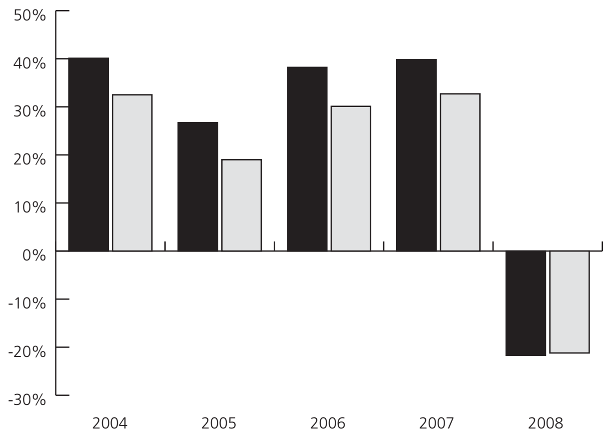
(Source: Datastream).

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

Directors' Remuneration Report

continued

The information given in the graph on page 19, which is set out in the format required by the Act, may be more readily understood in the form of a bar chart.



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

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

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 2007, were as follows:

	2008 £	2007 £
S M Davis	**17,000**	17,000
J D Fishburn	**27,500**	27,500
J J Nelson	**16,000**	16,000
K E Percy (ii)	**16,000**	12,156
J M P Taylor	**16,000**	16,000
P V S Manduca (i)	**–**	7,000
TOTAL	**92,500**	95,656

Notes:
(i) Mr Manduca retired from the Board on 29 September 2006.
(ii) Mr Percy was appointed to the Board on 21 July 2006.

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

By order of the Board
G S Rice
For and on behalf of Henderson Secretarial Services Limited,
Secretary
12 August 2008

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. The directors are required to prepare financial statements for the Group in accordance with International Financial Reporting Standards ("IFRS") and have also elected to prepare financial statements for the Company in accordance with IFRS. Company law requires the directors to prepare such financial statements in accordance with IFRS, the Companies Act 1985 and Article 4 of the IAS Regulation.

Company law requires that financial statements present fairly for each financial year the Group's and the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's *Framework for the Preparation and Presentation of Financial Statements*. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS. The directors are also required to:

- properly select and apply accounting policies consistently;
- make judgements and estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's and the Company's financial position and financial performance; and
- prepare the financial statements on the going concern basis.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report and Directors' Remuneration Report which comply with the requirements of the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Statement under DTR 4.1.12

The directors, who are listed on page 8 of this Annual Report, each confirm to the best of their knowledge that:

(a) the financial statements, prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the subsidiary undertaking included in the consolidation taken as a whole; and

(b) this Annual Report includes a fair review of the development and performance of the business and the position of the Company and the subsidiary undertaking included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

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

For and on behalf of the Board
J D Fishburn
Chairman
12 August 2008

Corporate Governance Statement

Background

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

Throughout the year under review the Code in force was The Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003 and revised in June 2006. In addition, the AIC Code of Corporate Governance, issued by the Association of Investment Companies in July 2003 and revised in February 2007, applies to the Company ("the AIC Code").

Statement of compliance

The directors consider that the Company has complied during the year ended 31 May 2008 with all the relevant provisions set out in the Code. The directors consider that the Company has complied throughout the year ended 31 May 2008 with the AIC Code.

Application of the principles of the Code

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

The Board of directors

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

The Board currently consists of six non-executive directors, all of whom the directors consider to be independent of the Company's Manager (Henderson Global Investors Limited). Their biographical details, set out on page 8 and expanded on pages 12 and 13, 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 the use of derivatives and on the extent to which borrowings may be used. The application of these and other restrictions, including those which govern the Company's tax status as an investment trust, are reviewed regularly at meetings of the Board. The Manager takes decisions as to the purchase and sale of individual investments and is responsible for effecting those decisions on the best available terms. The Chairman is responsible for leading the Board and for ensuring that it continues to deal effectively with all the aspects of its role. In particular, he ensures that the Manager provides the directors, in a timely manner, with management, regulatory and financial information that is clear, accurate and relevant. Representatives of the Manager attend each Board meeting, enabling the directors to seek clarification on specific issues or to probe further on matters of concern. Matters specifically reserved for decision by the full Board have been defined and there is an agreed procedure for directors, in the furtherance of their duties, to take independent professional advice, if necessary, at the Company's expense. The directors have access to the advice and services of the corporate company secretary, through its appointed representative, who is responsible to the Board for ensuring that Board procedures are followed.

When a director is appointed he or she is offered a tailored introductory programme organised by the Manager. Directors are also provided, on a regular basis, with key information on the Company's policies, regulatory and statutory requirements and internal controls. Changes affecting directors' responsibilities are advised to the Board as they arise. Directors are encouraged to attend suitable training courses on an ongoing basis at the Company's expense.

Corporate Governance Statement

continued

Directors are appointed for specified terms, subject to re-election and to the provisions of the Companies Acts. In accordance with the Company's articles of association, new directors stand for election at the first annual general meeting following their appointment. The Board has agreed that every director will stand for re-election at intervals of not more than three years. In accordance with the Code, directors who serve for more than nine years stand for re-election annually.

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

The Board's procedure in the current year for evaluating the performance of the Board, its committees and the individual directors has been by means of 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, without the Chairman present, to evaluate his performance.

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

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 8. A record of the meetings held during the year is set out on page 13.

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

Audit Committee

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

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

Corporate Governance Statement
continued

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

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

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

The Nomination Committee met formally once during the year to carry out this duty. It determined that the director to be appointed to replace Mr Taylor should add diversity to the skills and experience of the Board and be able to contribute from a fresh perspective to the Board's strategic leadership of the Company and its scrutiny of the Manager. Accordingly, the Board appointed a headhunter to identify candidates with a record of success in business or the professions rather than with any specific experience or expertise in investment or investment trust matters. Ms Sieghart was appointed to the Board on 18 July 2008.

Directors' remuneration
The Board as a whole considers the directors' remuneration; therefore it has not appointed a separate remuneration committee for this purpose. Because the Company is an investment trust company and all its directors are non-executive, the Company is not required to comply with the provisions of the Code in respect of the remuneration of executive directors. The directors' fees are detailed in the Directors' Remuneration Report on pages 19 and 20. The directors have undertaken to use part of their fees, after statutory deductions, to purchase shares in the Company.

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

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

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

Accountability and audit
The directors' statement of responsibilities in respect of the accounts is set out on page 21. The responsibilities of the independent auditors are set out on pages 26 and 27. The directors' statement that the business is a going concern is set out on page 25.

The Board has delegated contractually to external agents, including the Manager, the management of the investment portfolio, the custodial services (which include the safeguarding of the assets), the day to day accounting, company secretarial and administration requirements and the registration services. Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of the services offered, including the control systems in operation in so far as they relate to the affairs of the Company. The Board receives and considers regular reports from the Manager and ad hoc reports and information are supplied to the Board as required. In addition, either the Chairman or another director attends meetings of all the chairmen of the investment trust companies managed by the Manager; these meetings provide a forum to discuss industry matters and the Chairman reports on them to the Board.

Corporate Governance Statement

continued

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

Internal control

The Manager has established an internal control framework to provide reasonable assurance on the effectiveness of the internal controls operated on behalf of its clients. The effectiveness of the internal controls is assessed by the Manager's internal audit and compliance and risk departments on an ongoing basis.

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

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

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

Going concern

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

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

Environmental and human rights policy and the exercise of voting powers

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

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

Report of the Independent Auditors

to the members of The Henderson Smaller Companies Investment Trust plc

We have audited the consolidated and parent company financial statements (the "financial statements") of The Henderson Smaller Companies Investment Trust plc for the year ended 31 May 2008 which comprise the Consolidated Income Statement, the Consolidated and Parent Company Statements of Changes in Equity, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Cash Flow Statements and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Fund Manager's Review that is cross referred from the Business Review section of the Directors' Report.

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

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the Combined Code (2006) specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Financial highlights, Performance and Historical record, the Chairman's Statement, the Fund Manager's Review, the Investment Portfolio, the Directors' Report, the unaudited part of the Directors' Remuneration Report, and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free

Report of the Independent Auditors

continued

from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the consolidated financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 May 2008 and of its loss and cash flows for the year then ended;

- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 May 2008 and cash flows for the year then ended;

- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation; and

- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
12 August 2008

Consolidated Income Statement

for the year ended 31 May 2008

Notes		**Year ended 31 May 2008** Revenue return £'000	Capital return £'000	Total £'000	Year ended 31 May 2007 Revenue return £'000	Capital return £'000	Total £'000
2	Investment income	**7,086**	**–**	**7,086**	6,654	–	6,654
3	Other income	**108**	**–**	**108**	148	–	148
10	(Losses)/gains on investments held at fair value through profit or loss	**–**	**(70,417)**	**(70,417)**	–	97,162	97,162
	Total income/(loss)	**7,194**	**(70,417)**	**(63,223)**	6,802	97,162	103,964
	Expenses						
4	Management and performance fees	**(1,156)**	**–**	**(1,156)**	(1,342)	(2,350)	(3,692)
4	Write-back of VAT	**1,312**	**437**	**1,749**	–	–	–
5	Other expenses	**(373)**	**–**	**(373)**	(371)	–	(371)
	Profit/(loss) before finance costs and taxation	**6,977**	**(69,980)**	**(63,003)**	5,089	94,812	99,901
6	Finance costs	**(3,109)**	**–**	**(3,109)**	(3,133)	–	(3,133)
	Profit/(loss) before taxation	**3,868**	**(69,980)**	**(66,112)**	1,956	94,812	96,768
7	Taxation	**–**	**–**	**–**	–	–	–
	Profit/(loss) for the year	**3,868**	**(69,980)**	**(66,112)**	1,956	94,812	96,768
8	**Earnings/(loss) per ordinary share**	**4.64p**	**(83.96)p**	**(79.32)p**	2.12p	102.59p	104.71p

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

All items in the above statement derive from continuing operations.

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

The notes on pages 32 to 49 form part of these financial statements.

Consolidated and Parent Company Statements of Changes in Equity

for the year ended 31 May 2008

Consolidated – Year ended 31 May 2008

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

Consolidated – Year ended 31 May 2007

Notes		Called up share capital £'000	Capital redemption reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
	Balance at 31 May 2006	25,047	20,369	229,525	6,012	280,953
	Buy-backs of ordinary shares	(3,390)	3,390	(36,687)	–	(36,687)
	Profit for the year	–	–	94,812	1,956	96,768
9	Ordinary dividend paid	–	–	–	(1,334)	(1,334)
	Balance at 31 May 2007	21,657	23,759	287,650	6,634	339,700

Company – Year ended 31 May 2008

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

Company – Year ended 31 May 2007

Notes		Called up share capital £'000	Capital redemption reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
	Balance at 31 May 2006	25,047	20,369	231,792	3,745	280,953
	Buy-backs of ordinary shares	(3,390)	3,390	(36,687)	–	(36,687)
	Profit for the year	–	–	94,812	1,956	96,768
9	Ordinary dividend paid	–	–	–	(1,334)	(1,334)
	Balance at 31 May 2007	21,657	23,759	289,917	4,367	339,700

The notes on pages 32 to 49 form part of these financial statements.

Consolidated and Parent Company Balance Sheets

at 31 May 2008

Notes		Consolidated 2008 £'000	Consolidated 2007 £'000	Company 2008 £'000	Company 2007 £'000
	Non current assets				
10	Investments held at fair value through profit or loss	**286,819**	380,616	**289,084**	382,883
	Current assets				
13	Other receivables	**3,290**	1,932	**3,290**	1,932
	Cash and cash equivalents	**672**	1,360	**672**	1,360
		3,962	3,292	**3,962**	3,292
	Total assets	**290,781**	383,908	**293,046**	386,175
	Current liabilities				
14	Other payables	**(1,806)**	(4,153)	**(4,071)**	(6,420)
	Bank loans	**(13,500)**	(20,046)	**(13,500)**	(20,046)
		(15,306)	(24,199)	**(17,571)**	(26,466)
	Total assets less current liabilities	**275,475**	359,709	**275,475**	359,709
15	**Non current liabilities**				
	Financial liabilities	**(20,004)**	(20,009)	**(20,004)**	(20,009)
	Net assets	**255,471**	339,700	**255,471**	339,700
	Equity attributable to equity shareholders				
17	Called up share capital	**20,113**	21,657	**20,113**	21,657
18	Capital redemption reserve	**25,303**	23,759	**25,303**	23,759
	Retained earnings				
18	Other capital reserves	**200,986**	287,650	**203,251**	289,917
19	Revenue reserve	**9,069**	6,634	**6,804**	4,367
	Total equity	**255,471**	339,700	**255,471**	339,700
20	**Net asset value per ordinary share**	**317.6p**	392.1p	**317.6p**	392.1p

These financial statements were approved by the Board of directors on 12 August 2008 and signed on their behalf by:

J D Fishburn

The notes on pages 32 to 49 form part of these financial statements.

Consolidated and Parent Company Cash Flow Statements

for the year ended 31 May 2008

	Year ended 31 May 2008 Consolidated £'000	Year ended 31 May 2008 Company £'000	Year ended 31 May 2007 Consolidated £'000	Year ended 31 May 2007 Company £'000
Operating activities				
(Loss)/profit before taxation	**(66,112)**	**(66,112)**	96,768	96,768
Add: interest paid	**3,110**	**3,110**	3,128	3,128
Add: losses/(gains) on investments held at fair value through profit or loss	**70,417**	**70,417**	(97,162)	(97,162)
Add: net sales of investments held at fair value through profit or loss	**23,409**	**23,409**	34,213	34,213
Increase in other receivables	**(1,752)**	**(1,752)**	(158)	(158)
Decrease in amounts due from brokers	**405**	**405**	494	494
(Decrease)/increase in other payables	**(2,423)**	**(2,423)**	1,793	1,793
Increase in amounts due to brokers	**76**	**76**	1,363	1,363
Taxation on investment income	**(11)**	**(11)**	(2)	(2)
Net cash inflow from operating activities before interest and taxation	**27,119**	**27,119**	40,437	40,437
Interest paid	**(3,110)**	**(3,110)**	(3,128)	(3,128)
Net cash inflow from operating activities	**24,009**	**24,009**	37,309	37,309
Financing activities				
Equity dividend paid	**(1,433)**	**(1,433)**	(1,334)	(1,334)
Buy-backs of ordinary shares	**(16,739)**	**(16,739)**	(36,615)	(36,615)
(Repayment)/draw down of loans	**(6,546)**	**(6,546)**	1,046	1,046
Repurchase of preference stock	**(5)**	**(5)**	–	–
Net cash outflow from financing	**(24,723)**	**(24,723)**	(36,903)	(36,903)
(Decrease)/increase in cash and cash equivalents	**(714)**	**(714)**	406	406
Cash and cash equivalents at the start of the year	**1,360**	**1,360**	958	958
Exchange movements	**26**	**26**	(4)	(4)
Cash and cash equivalents at the end of the year	**672**	**672**	1,360	1,360

The notes on pages 32 to 49 form part of these financial statements.

Notes to the Financial Statements

1 Accounting policies

(a) Basis of preparation

The consolidated and parent company financial statements for the year ended 31 May 2008 have been prepared in accordance with International Financial Reporting Standards ("IFRS") and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. These comprise standards and interpretations approved by the International Accounting Standards Board ("IASB"), together with interpretations of the International Accounting Standards and Standing Interpretations Committee approved by the International Accounting Standards Committee ("IASC") that remain in effect, to the extent that IFRS have been adopted by the European Union.

The financial statements have been prepared on a going concern basis and on the historical cost basis, except for the revaluation of certain financial instruments. The principal accounting policies adopted are set out below. Where presentational guidance set out in the Statement of Recommended Practice ("the SORP") for investment trusts issued by the Association of Investment Companies ("the AIC") in December 2005 is consistent with the requirements of IFRS, the directors have sought to prepare the financial statements on a basis consistent with the recommendations of the SORP.

(i) Standards, amendments and interpretations becoming effective in the year to 31 May 2008:

- IFRS 7 *Financial Instruments: Disclosure*, and the complementary amendment to IAS 1 *Presentation of Financial Statements – Capital Disclosures*, introduces new disclosures relating to financial instruments. It does not have any impact on the classification and/or valuation of the Group or Company's financial instruments. The additional disclosures in accordance with the standard are set out in note 16 to the accounts.
- IFRIC 10 *Interim Financial Reporting and Impairment* prohibits impairment losses recognised in an interim period on goodwill or investments to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Group or Company's financial statements.

(ii) Standards, amendments and interpretations becoming effective in the year to 31 May 2008 but not relevant to the Group or Company:

- IFRS 4 *Insurance Contracts.*
- IFRIC 7 *Applying the Restatement Approach under IAS 29, Financial Reporting in Hyper-inflationary Economies.*
- IFRIC 9 *Re-assessment of embedded derivatives.*

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

- IAS 23 (Amendment) *Borrowing costs* (effective for financial years beginning on or after 1 January 2009). The amendment to the standard is still subject to endorsement by the European Union. It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. The Group has no qualifying assets but expects to apply the standard from 1 June 2009 if it becomes applicable.
- IFRS 8 *Operating segments* (effective for financial years beginning on or after 1 January 2009). The standard is still subject to endorsement by the European Union. IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131 *Disclosures about segments of an enterprise and related information*. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group expects to apply IFRS 8 from 1 June 2009. The impact is unclear at present.

(b) Basis of consolidation

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

Notes to the Financial Statements

continued

1 Accounting policies (continued)

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

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

Changes in the fair value of investments held at fair value through profit or loss and gains and losses on disposal are recognised in the Income Statement as "Gains or losses on investments held at fair value through profit or loss". Also included within this caption are transaction costs in relation to the purchase or sale of investments, including the difference between the purchase price of an investment and its bid price at the date of purchase.

(d) Presentation of the Income Statement

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

(e) Income

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

(f) Expenses

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

Purchase and sale transaction costs for the year ended 31 May 2008 were £266,000 and £116,000 respectively (2007: transaction costs of purchases £273,000; transaction costs of sales £138,000). These comprise mainly stamp duty and commission.

The performance fee (as payable in respect of the prior year, including related irrecoverable VAT), 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.

Notes to the Financial Statements

continued

1 Accounting policies (continued)

(g) Taxation (continued)

The tax currently payable is based on the taxable profit for the period. Taxable profit differs from net profit as reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that were applicable at the balance sheet date.

In line with the recommendations of the SORP, the allocation method used to calculate tax relief on expenses presented against capital returns in the supplementary information in the Income Statement is the "marginal basis". Under this basis, if taxable income is capable of being offset entirely by expenses presented in the revenue return column of the Income Statement, then no tax relief is transferred to the capital return column.

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

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

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

(h) Foreign currency

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

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

(i) Cash and cash equivalents

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

(j) Bank borrowings

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

(k) Preference stock

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

Notes to the Financial Statements

continued

		2008 £'000	2007 £'000
2	**Investment income**		
	Listed investments:		
	Dividend income (including special dividends of £118,000)	**6,786**	6,368
	Unlisted investments:		
	Dividend income	**300**	286
	Total investment income	**7,086**	6,654

		2008 £'000	2007 £'000
3	**Other income**		
	Bank interest	**61**	49
	Underwriting commission	**47**	99
		108	148

4 Management and performance fees

	2008 Revenue £'000	2008 Capital £'000	2008 Total £'000	2007 Revenue £'000	2007 Capital £'000	2007 Total £'000
Management fee	**1,083**	**–**	**1,083**	1,147	–	1,147
Performance fee	**–**	**–**	**–**	–	2,000	2,000
Irrecoverable VAT thereon	**73**	**–**	**73**	195	350	545
	1,156	**–**	**1,156**	1,342	2,350	3,692
Write-back of VAT	**(1,312)**	**(437)**	**(1,749)**	–	–	–
	(156)	**(437)**	**(593)**	1,342	2,350	3,692

A summary of the management agreement is given on page 15 in the Directors' Report.

VAT on management fees

In 2004 the Association of Investment Companies (the "AIC"), together with JPMorgan Claverhouse Investment Trust plc, launched a case against HM Revenue & Customs ("HMRC") to challenge whether Value Added Tax ("VAT") should be charged on fees paid for management services provided to investment trust companies. On 28 June 2007 the European Court of Justice delivered its judgement on the case in favour of the AIC.

Since then HMRC has accepted that the provision of investment management services to investment trust companies is VAT exempt and has acknowledged its liability to pay claims in respect of VAT borne by investment companies. The Manager (Henderson Global Investors Limited) is now able to reclaim from HMRC the amount of VAT charged to the Company in respect of investment management services from 1 October 2000 to 30 September 2007, to the extent that such VAT was paid by the Manager to HMRC. VAT has not been applied to investment management fees invoiced since September 2007.

Accordingly, VAT borne by the Company on investment management fees invoiced in the period from 1 October 2000 to 30 September 2007 has been written back, in accordance with an agreement reached between the Manager and the Company. An amount of £1,749,000 has been recognised, reflecting the extent to which recovery by the Company is considered to be virtually certain. The write-back has been allocated between revenue return and capital return according to the allocation of the amounts originally paid.

Notes to the Financial Statements
continued

4 Management and performance fees (continued)

The Company may be able to recover further amounts of the VAT charged on investment management fees back to 1990, in particular in respect of the period from 1 January 1990 to 4 December 1996. However, the Board considers that currently there are too many uncertainties for any reasonable estimate of the amounts potentially recoverable to be calculated.

The Company will receive from the Manager any interest paid by HMRC on the amounts eventually recovered.

5 Other expenses	**2008 £'000**	2007 £'000
Directors' fees (see the directors' remuneration report on pages 19 and 20)	**93**	96
Remuneration for audit of the parent company and the consolidated accounts (including £27,000 (2007: £25,000) relating to the parent undertaking)	**28**	27
Other professional fees	**50**	29
FSA and London Stock Exchange fees	**17**	15
Registration costs	**13**	14
Annual and half year reports: printing and distribution	**17**	28
Insurances	**23**	30
AIC subscriptions	**33**	31
Custody and other bank charges	**40**	40
Bank facilities: non-utilisation commissions	**24**	15
Charitable donations	**5**	5
Other expenses payable to the management company*	**16**	23
Share price listings	**7**	8
Other expenses	**7**	10
	373	371

*Other expenses payable to the management company relate to the marketing and administration of Itshenderson (formerly the Henderson Investment Trust Share Plan).

6 Finance costs	**2008 £'000**	2007 £'000
Bank overdraft and loan interest	**1,009**	1,033
Interest on debentures that are repayable wholly or partly after five years	**2,100**	2,100
	3,109	3,133

7 Taxation **(a) Taxation charge on ordinary activities**	**2008 £'000**	2007 £'000
Current tax	**–**	–
Overseas tax recoverable	**–**	–
	–	–

(b) Factors affecting the tax charge for the year

Approved investment trusts are exempt from tax on capital gains made by the investment trust.
The tax assessed for the year is lower than the standard rate of corporation tax in the UK of 29.7% (2007: 30%) for the year ended 31 May 2008. (The rate was 30% until 31 March 2008 and 28% from 1 April 2008, an effective rate for the year of 29.7%.) The differences are explained below:

Notes to the Financial Statements
continued

7 Taxation (continued)

(b) Factors affecting the tax charge for the year (continued)	**2008 £'000**	2007 £'000
(Loss)/profit before taxation	**(66,112)**	96,768
Corporation tax at 29.7% (2007: 30%)	**(19,635)**	29,030
Effects of:		
Non-taxable gains on investments held at fair value through profit or loss	**20,914**	(29,149)
Non-taxable UK investment income	**(2,021)**	(1,910)
Excess management expenses and loan deficits	**728**	2,030
Movement in taxable income accruals	**8**	(8)
Disallowed expenses	**6**	7
Current tax charge for the year	**–**	–

(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 £12,130,000 (2007: £11,394,000) 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 capital gains made by the Company changes or if the Company's investment profile changes.

8 (Loss)/earnings per ordinary share

The earnings per ordinary share figure is based on the net losses for the year of £66,112,000 (2007: gains of £96,768,000) and on 83,350,298 (2007: 92,418,217) 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.

	2008 £'000	2007 £'000
Net revenue profit	**3,868**	1,956
Net capital (loss)/profit	**(69,980)**	94,812
Net total (loss)/profit	**(66,112)**	96,768
Weighted average number of ordinary shares in issue during the year	**83,350,298**	92,418,217

	Pence	Pence
Revenue earnings per ordinary share	**4.64**	2.12
Capital (losses)/earnings per ordinary share	**(83.96)**	102.59
Total (losses)/earnings per ordinary share	**(79.32)**	104.71

Notes to the Financial Statements
continued

9	**Dividends**	**2008 £'000**	2007 £'000
	Amounts recognised as distributions to equity holders in the year:		
	Final dividend for the year ended 31 May 2007 of 1.70p (2006: 1.35p per ordinary share)	**1,433**	1,337
	Write-back of dividends relating to prior years	**–**	(3)
		1,433	1,334

The final dividend of 1.70p per ordinary share in respect of the year ended 31 May 2007 was paid on 5 October 2007 to shareholders on the register of members at the close of business on 31 August 2007. The total dividend paid amounted to £1,433,000.

Subject to approval at the Annual General Meeting, the proposed final dividend of 2.20p per ordinary share and special dividend of 1.60p per ordinary share will be paid on 3 October 2008 to shareholders on the register of members at the close of business on 29 August 2008.

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

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

	2008 £'000
Revenue available for distribution by way of dividends for the year	**3,868**
Proposed final dividend for the year ended 31 May 2008: 2.20p	**(1,748)**
Proposed special dividend for the year ended 31 May 2008: 1.60p (both based on the 79,450,046 shares in issue at 12 August 2008)	**(1,271)**
Undistributed revenue for section 842 purposes*	**849**

*Undistributed revenue comprises 12.0% of the income from investments of £7,086,000 (see note 2).

Notes to the Financial Statements

continued

10 Investments held at fair value

(a) Group

	£'000
Cost at 1 June 2007	**208,199**
Unrealised appreciation at 1 June 2007	**172,417**
Valuation at 1 June 2007	**380,616**
Movements in the year:	
Acquisitions at cost	**57,012**
Disposals at cost	**(47,993)**
Movement in unrealised appreciation	**(102,816)**
Valuation at 31 May 2008	**286,819**
Cost at 31 May 2008	**217,218**
Unrealised appreciation	**69,601**
Valuation at 31 May 2008	**286,819**

Included in the total investments are (i) unlisted investments that are quoted on the Alternative Investment Market of £25,282,000 (2007: £43,470,000) and (ii) unlisted investments that are unquoted and shown at the directors' fair valuation of £nil (2007: £42,000).

At 31 May 2008 no convertible or fixed interest securities were held in the portfolio (2007: nil).

Notes to the Financial Statements

continued

10 Investments held at fair value (continued)

(b) Company	Investments £'000	Subsidiary undertaking £'000	Total £'000
Cost at 1 June 2007	208,199	–	**208,199**
Unrealised appreciation at 1 June 2007	172,417	2,267	**174,684**
Valuation at 1 June 2007	380,616	2,267	**382,883**
Movements in the year:			
Acquisitions at cost	57,012	–	**57,012**
Disposals at cost	(47,993)	–	**(47,993)**
Movement in unrealised appreciation	(102,816)	(2)	**(102,818)**
Valuation at 31 May 2008	286,819	2,265	**289,084**
Cost at 31 May 2008	217,218	–	**217,218**
Unrealised appreciation	69,601	2,265	**71,866**
Valuation at 31 May 2008	286,819	2,265	**289,084**

Included in the total investments are (i) unlisted investments that are quoted on the Alternative Investment Market of £25,282,000 (2007: £43,470,000) and (ii) unlisted investments that are unquoted and shown at the directors' fair valuation of £2,265,000 (2007: £2,309,000).

(c) Total capital (losses)/gains from investments (Group)	2008 £'000	2007 £'000
Realised gains based on historical cost	**32,399**	25,945
Amounts recognised as unrealised in previous years	**(42,153)**	(19,974)
Realised (losses)/gains based on carrying value at the previous balance sheet date	**(9,754)**	5,971
Net movement in unrealised appreciation	**(60,663)**	91,191
	(70,417)	97,162

Notes to the Financial Statements
continued

11 Subsidiary undertaking

The Company has an investment in the entire issued ordinary share capital, fully paid, of £2 in its wholly owned subsidiary undertaking, Henderson Smaller Companies Finance Limited, which is registered in England and Wales and operates in the United Kingdom as an investment dealing company. The investment is stated in the Company's accounts at net asset value, which is considered by the directors to equate to fair value. The amount due from the subsidiary company at 31 May 2008 amounted to £2,265,000 (2007: 2,267,000). This payable has been eliminated on consolidation.

12 Substantial interests

The Group held interests in 3% or more of any class of share capital in one investee company (2007: one investee company). None of these investments are considered by the directors to be significant in the context of these accounts.

13 Other receivables

	Group 2008 £'000	Group 2007 £'000	**Company 2008 £'000**	Company 2007 £'000
Securities sold for future settlement	**69**	474	**69**	474
Tax recoverable	**23**	12	**23**	12
Prepayments and accrued income	**1,450**	1,441	**1,450**	1,441
Other receivables	**1,748**	5	**1,748**	5
	3,290	1,932	**3,290**	1,932

All receivables are due for less than six months, except for tax recoverable of £14,000 (2007: £12,000) which is past due but fully performing and not impaired.

14 Other payables

	Group 2008 £'000	Group 2007 £'000	**Company 2008 £'000**	Company 2007 £'000
Securities purchased for future settlement	**1,607**	1,531	**1,607**	1,531
Amounts owed to subsidiary undertaking	–	–	**2,265**	2,267
Accruals and deferred income	**199**	2,622	**199**	2,622
	1,806	4,153	**4,071**	6,420

15 Non current liabilities

	Group and Company 2008 £'000	Group and Company 2007 £'000
Debenture stock: redemption after more than five years:		
10½ per cent Debenture Stock 2016 (redeemable at par on 31 May 2016)	**20,000**	20,000
Preference stock:		
4,257 preference stock units of £1 each (2007: 9,257)	**4**	9
	20,004	20,009

Notes to the Financial Statements
continued

15 Non current liabilities (continued)

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

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

16 Risk management policies and procedures

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

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

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

(i) Market risk

The fair value of a financial instrument held by the Company may fluctuate due to changes in market prices. This market risk comprises market price risk (see note 16 (ii)), currency risk (see note 16 (iii)) and interest rate risk (see note 16 (iv)). The Board reviews and agrees policies for managing these risks. The Manager assesses the exposure to market risk when making each investment decision and monitors the overall level of market risk on the whole of the investment portfolio on an ongoing basis.

(ii) Market price risk

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

Management of the risk

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

Notes to the Financial Statements

continued

16 Risk management policies and procedures (continued)

The Company's exposure to changes in market prices at 31 May 2008 on its equity investments was as follows:

	2008 £'000	2007 £'000
Investments held at fair value through profit or loss	**286,819**	380,616

Concentration of exposure to market price risk

An analysis of the Company's investments is shown on pages 6 and 7 and a sector analysis is set out on page 4. At 31 May 2008 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 2008 is a decrease of £251,000 (2007: £333,000) and on the capital return is an increase of £71,705,000 (2007: £95,154,000).

The impact of a 25% decrease in the value of the investments on the revenue return as at 31 May 2008 is an increase of £251,000 (2007: £333,000) and on the capital return is a decrease of £71,705,000 (2007: £95,154,000).

(iii) Currency risk

As the Company's objective is to achieve long term capital growth for shareholders through investment mainly in smaller companies that are quoted in the United Kingdom, substantially all the Company's assets are sterling denominated. From time to time the Company may invest in overseas companies that are quoted in the United Kingdom, and, consequently, at any time a small proportion of the Company's assets, liabilities and income may be denominated in currencies other than sterling, being the Company's functional currency and that in which it reports its results. It is the opinion of the Board that, due to the de minimis level of these holdings, any movements in exchange rates will not materially affect the value of the Company's net assets.

As at 31 May 2008, the Company did not hold any non-sterling denominated investments (2007: 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.

Notes to the Financial Statements

continued

16 Risk management policies and procedures (continued)

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

Management of the risk

The possible effects on the fair value of the investments that could arise as a result of changes in interest rates are taken into account when making investment decisions and borrowing decisions. The Company rarely holds significant cash balances but finances part of its investment activity through borrowings at levels approved and monitored by the Board. The debenture stock provides long term finance at a fixed rate of interest; it was issued in 1987 to enable the Company to benefit from long term planned gearing. In addition, the Company makes use of short term borrowings. The Company has committed borrowing facilities with two banks for a total of £30 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 exposure at 31 May 2008 of the financial assets and financial liabilities to interest rate risk is shown by reference to:

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

– fixed interest rates: when the financial instrument is due for repayment.

	2008 Within one year £'000	**2008 More than one year £'000**	**2008 Total £'000**	2007 Within one year £'000	2007 More than one year £'000	2007 Total £'000
Exposure to floating interest rates:						
cash at bank	**672**	**–**	**672**	1,360	–	1,360
creditors – repayable within one year:						
bank loans	**(13,500)**	**–**	**(13,500)**	(20,046)	–	(20,046)
Total exposure to floating interest rates	**(12,828)**	**–**	**(12,828)**	(18,686)	–	(18,686)
Exposure to fixed interest rates:						
repayables after more than one year:						
debenture stock	**–**	**(20,000)**	**(20,000)**	–	(20,000)	(20,000)
preference stock	**–**	**(4)**	**(4)**	–	(9)	(9)
Total exposure to fixed interest rates	**–**	**(20,004)**	**(20,004)**	–	(20,009)	(20,009)

Interest received on cash balances, or paid on bank loans and overdrafts respectively, was on average 5.3% and 6.8% per annum during the year. The interest payable on the debenture stock is accrued at a fixed rate of 10.5% per annum.

The above year end 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 and repaid, and the mix of borrowings subject to floating or to fixed interest rates changes.

Notes to the Financial Statements

continued

16 Risk management policies and procedures (continued)

Interest rate sensitivity

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

Based on the Company's monetary financial assets and liabilities at each balance sheet date, an increase or decrease of 200 basis points in interest rates would decrease or increase revenue return after tax, and shareholders' funds, by £256,000 (2007: £373,000).

This level of change is considered to be reasonably possible based on observation of current market conditions. This is not representative of the year as a whole, since the exposure changes as investments are made.

(v) Liquidity risk

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

Management of the risk

Liquidity risk is not significant as the majority of the Company's assets are investments in quoted equity securities that are readily realisable. The Company has borrowed £20 million by its issue in 1987 of £20 million 10½ per cent Debenture Stock 2016. The Company is able to draw short term borrowings of up to £30 million from its two committed borrowing facilities: of £15 million with The Royal Bank of Scotland plc (expiring on 3 October 2008) and of £15 million with ING Bank N.V., London Branch (expiring on 21 May 2011). There were borrowings of £13,500,000 at 31 May 2008 under the facility with The Royal Bank of Scotland plc (2007: £20,046,000). In addition, the Company has an uncommitted overdraft facility with its custodian, the extent of which is determined by the custodian on a regular basis by reference to the value of the securities held by it on behalf of the Company; there were no borrowings under the overdraft facility at 31 May 2008 (2007: none).

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

Liquidity risk exposure

The remaining contractual maturities of the financial liabilities at 31 May 2008, based on the earliest date on which payment can be required, was as follows:

2008	**Less than 1 year £'000**	**More than 1 year £'000**	**Total £'000**
Debenture stock	**–**	**20,000**	**20,000**
Preference stock	**–**	**4**	**4**
Bank loans	**13,500**	**–**	**13,500**
Amounts due to brokers and accruals	**1,806**	**–**	**1,806**
	15,306	**20,004**	**35,310**

2007	Less than 1 year £'000	More than 1 year £'000	Total £'000
Debenture stock	–	20,000	20,000
Preference stock	–	9	9
Bank loans	20,046	–	20,046
Amounts due to brokers and accruals	4,153	–	4,153
	24,199	20,009	44,208

Notes to the Financial Statements
continued

16 Risk management policies and procedures (continued)

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

Management of the risk
The risk is not significant, and is managed as follows:
– investment transactions are carried out with a large number of brokers, whose credit standard is reviewed regularly by the Manager, and limits are set on the amount that may be due from any one broker;
– cash at bank is held only with reputable banks with high quality external credit ratings.

In summary, the exposure to credit risk at 31 May 2008 was to cash and cash equivalents of £672,000 (2007: £1,360,000) and to other receivables of £3,290,000 (2007: £1,932,000) (see note 13).

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

(viii) Capital management policies and procedures
The Company's capital management objectives are:
– to ensure that it will be able to continue as a going concern; and
– to secure long term capital growth for the shareholders by investment in quoted securities in the UK.

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

The Company's total capital at 31 May 2008 was £288,975,000 (2007: £379,755,000) comprising £13,500,000 (2007: £20,046,000) of bank loans, £20,000,000 (2007: £20,000,000) of debenture stock, £4,000 (2007: £9,000) of preference stock and £255,471,000 (2007: £339,700,000) of equity share capital and other reserves.

17 Called up share capital

	2008 £'000	2007 £'000
Authorised:		
188,000,000 ordinary shares of 25p each (2007: 188,000,000)	**47,000**	47,000
Allotted, issued and fully paid:		
80,449,030 ordinary shares of 25p each (2007: 86,626,030)	**20,113**	21,657

During the year the Company made market purchases for cancellation of 6,177,000 of its own issued ordinary shares (2007: 13,560,252). A further 998,984 shares were bought back for cancellation between 31 May 2008 and 12 August 2008. Details of these purchases are given on page 17 in the Directors' Report.

Notes to the Financial Statements

continued

18 Capital redemption reserve and other capital reserves

(a) Group	**Capital redemption reserve £'000**	Capital reserve – unrealised £'000	Capital reserve – realised £'000	**Other capital reserves £'000**
At 1 June 2007	**23,759**	172,417	115,233	**287,650**
Transfer on disposal of investments (see note 10 (c))	**–**	(42,153)	42,153	**–**
Capital loss for the year	**–**	(60,663)	(9,754)	**(70,417)**
Write-back of VAT	**–**	–	437	**437**
Buy-backs of own shares	**1,544**	–	(16,684)	**(16,684)**
At 31 May 2008	**25,303**	**69,601**	**131,385**	**200,986**

The capital reserve – unrealised at 31 May 2008 includes £77,000 in respect of the unrealised appreciation of unlisted investments (2007: appreciation of £11,643,000).

(b) Company	**Capital redemption reserve £'000**	Capital reserve – unrealised £'000	Capital reserve – realised £'000	**Other capital reserves £'000**
At 1 June 2007	**23,759**	174,684	115,233	**289,917**
Transfer on disposal of investments (see note 10 (c))	**–**	(42,153)	42,153	**–**
Capital loss for the year	**–**	(60,665)	(9,754)	**(70,419)**
Write-back of VAT	**–**	–	437	**437**
Buy-backs of own shares	**1,544**	–	(16,684)	**(16,684)**
At 31 May 2008	**25,303**	**71,866**	**131,385**	**203,251**

The capital reserve – unrealised at 31 May 2008 includes £2,343,000 in respect of the unrealised appreciation of unlisted investments (2007: appreciation of £3,018,000).

Under the terms of the Company's Articles of Association, sums standing to the credit of other capital reserves are available for distribution only by way of redemption or purchase of any of the Company's own shares. The Company may only distribute accumulated "realised" profits. The Institute of Chartered Accountants in England and Wales has issued guidance (TECH 01/08) stating that profits arising out of a change in the fair value of assets, recognised in accordance with Accounting Standards, may be distributed, provided that the relevant assets can be readily converted into cash. Securities listed on a recognised stock exchange are generally regarded as being readily convertible into cash and hence unrealised profits less losses amounting to £69,524,000 (2007: £160,774,000), currently included within the Company's capital reserve – unrealised, may be regarded as distributable under company law.

Notes to the Financial Statements

continued

19	Retained earnings – revenue reserve	Group £'000	Company £'000
	At 1 June 2007	**6,634**	**4,367**
	Ordinary dividend paid	**(1,433)**	**(1,433)**
	Revenue profit for the year	**3,868**	**3,870**
	At 31 May 2008	**9,069**	**6,804**

As permitted by section 230 of the Companies Act 1985, the Company has not presented its own income statement. The loss after taxation of the Company amounted to £66,112,000 (2007: profit of £96,768,000).

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 £255,471,000 (2007: £339,700,000) and on the 80,449,030 ordinary shares in issue at 31 May 2008 (2007: 86,626,030).

An alternative net asset value per ordinary share can be calculated by deducting from the total assets less current liabilities of the Group the preference stock and the debenture stock at their market (or fair) values rather than at their par (or book) values (see note 16 (vii) on page 46). The net asset value per ordinary share at 31 May 2008 calculated on this basis was 310.9p (2007: 385.1p).

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

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

	£'000
Net assets attributable to the ordinary shares at 1 June 2007	339,700
Loss for the year	(66,112)
Dividend paid in the year:	
ordinary shares	(1,433)
Repurchase of 6,177,000 ordinary shares	(16,684)
Net assets attributable to the ordinary shares at 31 May 2008	**255,471**

21 Capital commitments, contingent liabilities and contingent assets

Capital commitments

There were capital commitments of £nil as at 31 May 2008 (2007: £nil).

Contingent liabilities

At 31 May 2008 there were contingent liabilities totalling £3,155,000 in respect of sub-underwriting commitments (2007: £nil).

Contingent assets

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

Notes to the Financial Statements
continued

22 Transactions with the Manager

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

Details of the fee arrangements for these services are given on page 15 in the Directors' Report. The management fees payable to Henderson under this agreement in respect of the year ended 31 May 2008 were £1,156,000 (excluding VAT) (2007: £1,147,000) of which £86,000 was prepaid at 31 May 2008 (2007: £107,000). With effect from 1 October 2007 VAT is no longer payable on management (including performance) fees.

No performance fee was payable to Henderson in respect of the year ended 31 May 2008 (2007: £2,000,000 excluding VAT).

In addition to the above services, Henderson has provided the Company with share plan marketing and administration services. The total fees paid or payable for these services for the year ended 31 May 2008 were £14,000 (excluding VAT) (2007: £20,000), of which £8,000 was outstanding at 31 May 2008 (2007: £8,000).

23 Segment Reporting

Geographical segment

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

Business segment

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

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 the inside back cover.

General Shareholder Information

Release of results
Half year results are announced in January. Full year results are announced in July.

AGM
The annual general meeting is held in London in September.

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

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

Final dividend warrants and tax vouchers
Dividend warrants and tax vouchers for the 2008 final dividend and special dividend will be posted on 1 October 2008 to shareholders on the register on 29 August 2008. The dividends will be paid on 3 October 2008, subject to approval at the AGM.

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

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

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

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

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

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

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

For those who invest through the Itshenderson Dealing Account or ISA a textphone telephone service is available on 020 7850 5406. This service is available during normal business hours.

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 Itshenderson Dealing Account or ISA receive all shareholder communications. A form of instruction is provided to facilitate voting at general meetings of the Company.

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

Directors and other Information

Directors
J D Fishburn *(Chairman)*
S M Davis *(Chairman of the Audit Committee)*
J J Nelson *(Senior Independent Director from 26 September 2008)*
K E Percy
M A Sieghart (from 18 July 2008)
J M P Taylor *(Senior Independent Director)* (until 26 September 2008)

Manager
Henderson Global Investors Limited,
represented since November 2002 by N M Hermon

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

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

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

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

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

aic
The Association of
Investment Companies

Itshenderson
by post:
PO Box 4605
Worthing
BN99 6QY

by telephone:
0845 712 5432
between 8.00 am and 5.00 pm, Monday to Friday
+44 131 527 3740
if calling from abroad

by fax:
0870 242 4034

by email:
enquiries@itshenderson.com

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

Solicitors
Slaughter and May
One Bunhill Row
London EC1Y 8YY

The Henderson Smaller Companies Investment Trust plc is managed by

Henderson Global Investors

This report is printed on 9lives, a paper containing 55% recycled fibre & 45% FSC accredited virgin fibre. Pulps used are elemental chlorine free manufactured at a mill accredited with the ISO 14001 environmental management system.

The FSC logo identifies products which contain wood from well managed forests certified in accordance with the rules of the Forest Stewardship Council.

Printed by Leycol, London

HGI9226/2008