

The Henderson Smaller Companies Investment Trust plc

Financial report for the half year ended 30 November 2007



Objective

To maximise shareholders' total returns by investing in smaller companies that are listed in the United Kingdom.

The benchmark against which performance is measured is the Hoare Govett Smaller Companies (excluding investment companies) Index.

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Financial Highlights

	30 November 2007	30 November 2006	31 May 2007
Total net assets	£274 million	£289 million	£340 million
Net asset value per ordinary share	326.2p	324.0p	392.1p
Net asset value per ordinary share on an alternative basis*	318.0p	315.5p	385.1p
Market price per ordinary share	249.0p	275.0p	323.5p
Total earnings per ordinary share	(66.98)p	39.34p	104.71p
Revenue earnings per ordinary share	2.28p	0.94p	2.12p
Gearing†	12.4%	14.5%	12.0%

*Calculated by deducting the debenture stock from the total assets less current liabilities of the Group at its market value rather than at its par value.

†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 30 November 2007:

	6 months %	1 year %	3 years %	5 years %
The Henderson Smaller Companies Investment Trust plc: net asset value per share	(16.7)	0.6	65.6	207.0
The Henderson Smaller Companies Investment Trust plc: share price	(22.6)	(8.9)	60.1	191.0
Hoare Govett Smaller Companies (excluding investment companies) Index	(15.0)	(0.4)	58.6	154.6
FTSE SmallCap (excluding investment companies) Index	(22.1)	(9.5)	25.6	85.1
FTSE All-Share Index	(3.1)	8.5	54.0	93.2

Responsibility Statement

We confirm that to the best of our knowledge:

- (a) the condensed set of financial statements has been prepared in accordance with IAS 34;
- (b) the Interim Management Report includes a fair review of the information required by Disclosure and Transparency Rules 4.2.7R (an indication of important events that have occurred during the first six months of the financial year and a description of the principal risks and uncertainties for the remaining six months of the financial year); and
- (c) the Interim Management Report includes a fair review of the information required by Disclosure and Transparency Rules 4.2.8R (disclosure of related party transactions and changes therein).

By order of the Board

J Dudley Fishburn

Chairman

18 January 2008

Interim Management Report

Results and performance

The results for the half year ended 30 November 2007 are disappointing, with the net asset value per share, including half year adjustments, falling by 16.8% from 392.1p to 326.2p. By comparison, the total return of the benchmark index was a negative 15.0%. The Manager's attribution of performance for the period shows that the underperformance was attributable to the gearing; stock selection made a positive contribution to the total return, as did share buy-backs. The performance over the five year period ended 30 November 2007 remains strong, showing substantial outperformance of the benchmark index. The increase in the revenue earnings per share reflects the exceptional write-back of VAT on management fees.

Refund of VAT on management fees

HM Revenue & Customs has now accepted the judgement of the European Court of Justice, made in response to the test case initiated by the Association of Investment Companies (the "AIC"). As a result, investment management fees paid by investment trust companies are now exempt from VAT and in due course the Company will receive, via the Manager, refunds of some of the VAT borne in past years and up to September 2007. To the extent that recovery is certain, the Company is required by the accounting rules to recognise the amount in the Income Statement and Balance Sheet. This has been done by including the amount that the Company is certain of receiving in due course, £1,749,000, as a negative cost, allocated between capital and revenue in the proportions in which it was originally expensed. Eventually the Company may recover more of the VAT borne in past years but there are currently many uncertainties and the timetable to conclusion of this issue will be a long one. Note 2 to the financial statements explains the position in more detail.

Share buy-backs

During the half year a total of 2.8 million shares were bought back and cancelled, representing

3.2% of the issued share capital at 31 May 2007. The Board will continue to buy back shares when to do so helps to maintain an orderly market and is in the interests of the shareholders generally.

Risks and uncertainties

The principal risks and uncertainties facing the Company relate to its activity of investing in the shares of smaller companies. Although the Company invests 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 Company is exposed to gearing risk in that its borrowings, £20 million of which are fixed debt, increase the shareholders' exposure to equities. The Company is also exposed to the operational risk that one or more of its suppliers may not provide the required level of service.

Investment activity and outlook

The 60 largest companies in the portfolio are listed on page 12. Most of the corporate news from the investments has remained good and the reporting season has been generally positive, although by definition company results are a backwards looking indicator. The stockmarket's strong start to the year evaporated in the summer as the "credit crunch" took hold and confidence over the prospects for the global economy steadily worsened. Markets have become increasingly volatile in recent months, with individual share prices prone to large swings. There has been a move by investors away from smaller and mid cap companies to larger companies and more defensive investment areas. The short-term outlook is uncertain and investor confidence is low. However, real pockets of value are starting to appear, even though corporate profitability will be under pressure in 2008. Careful stock selection will be of paramount importance in the coming year.

Consolidated Income Statement

for the half year ended 30 November 2007

	Note	(Unaudited)		
		Half year ended 30 November 2007		
		Revenue return £'000	Capital return £'000	Total £'000
Investment income		3,069	–	3,069
Other income		60	–	60
Losses/gains on investments held at fair value through profit or loss		–	(58,408)	(58,408)
Total income		3,129	(58,408)	(55,279)
Expenses				
Management fees		(666)	–	(666)
Provision for performance fee		–	–	–
Write-back of VAT	2	1,312	437	1,749
Other expenses		(197)	–	(197)
Profit/(loss) before finance costs and taxation		3,578	(57,971)	(54,393)
Finance costs		(1,670)	–	(1,670)
Profit/(loss) before taxation		1,908	(57,971)	(56,063)
Taxation		–	–	–
Profit/(loss) for the period		1,908	(57,971)	(56,063)
Earnings/(loss) per ordinary share	3	2.28p	(69.26)p	(66.98)p

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

All items in the above statement derive from continuing operations.

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

(Unaudited) Half year ended 30 November 2006			(Audited) Year ended 31 May 2007		
Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
3,202	–	3,202	6,654	–	6,654
99	–	99	148	–	148
–	38,181	38,181	–	97,162	97,162
<u>3,301</u>	<u>38,181</u>	<u>41,482</u>	<u>6,802</u>	<u>97,162</u>	<u>103,964</u>
(660)	–	(660)	(1,342)	–	(1,342)
–	(1,167)	(1,167)	–	(2,350)	(2,350)
–	–	–	–	–	–
(182)	–	(182)	(371)	–	(371)
<u>2,459</u>	<u>37,014</u>	<u>39,473</u>	<u>5,089</u>	<u>94,812</u>	<u>99,901</u>
(1,552)	–	(1,552)	(3,133)	–	(3,133)
<u>907</u>	<u>37,014</u>	<u>37,921</u>	<u>1,956</u>	<u>94,812</u>	<u>96,768</u>
–	–	–	–	–	–
<u>907</u>	<u>37,014</u>	<u>37,921</u>	<u>1,956</u>	<u>94,812</u>	<u>96,768</u>
<u>0.94p</u>	<u>38.40p</u>	<u>39.34p</u>	<u>2.12p</u>	<u>102.59p</u>	<u>104.71p</u>

Consolidated Statement of Changes in Equity

for the half year ended 30 November 2007

	(Unaudited)				
	Half year ended 30 November 2007				
	Ordinary 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	(689)	689	(8,597)	–	(8,597)
(Loss)/profit for the period after taxation	–	–	(57,971)	1,908	(56,063)
Ordinary dividend paid	–	–	–	(1,433)	(1,433)
Balance at 30 November 2007	20,968	24,448	221,082	7,109	273,607

	(Unaudited)				
	Half year ended 30 November 2006				
	Ordinary 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	(2,716)	2,716	(28,109)	–	(28,109)
Profit for the period after taxation	–	–	37,014	907	37,921
Ordinary dividend paid	–	–	–	(1,337)	(1,337)
Balance at 30 November 2006	22,331	23,085	238,430	5,582	289,428

	(Audited)				
	Year ended 31 May 2007				
	Ordinary 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 after taxation	–	–	94,812	1,956	96,768
Ordinary dividend paid	–	–	–	(1,334)	(1,334)
Balance at 31 May 2007	21,657	23,759	287,650	6,634	339,700

Consolidated Balance Sheet

at 30 November 2007

Note	(Unaudited) 30 November 2007 £'000	(Unaudited) 30 November 2006 £'000	(Audited) 31 May 2007 £'000
Non-current assets			
Investments held at fair value through profit or loss	307,619	331,409	380,616
Current assets			
Sales for future settlement	553	1,027	474
Taxation recoverable	12	12	12
Prepayments and accrued income	479	549	1,441
Cash and cash equivalents	362	614	1,360
Other debtors	1,754	7	5
	3,160	2,209	3,292
Total assets	310,779	333,618	383,908
Current liabilities			
Purchases for future settlement	(379)	(969)	(1,531)
Accruals	(269)	(1,712)	(2,622)
Bank loans and overdrafts	(16,520)	(21,500)	(20,046)
	(17,168)	(24,181)	(24,199)
Total assets less current liabilities	293,611	309,437	359,709
Non-current liabilities	(20,004)	(20,009)	(20,009)
Net assets	273,607	289,428	339,700
Equity attributable to equity shareholders			
Called up share capital	20,968	22,331	21,657
Capital redemption reserve	24,448	23,085	23,759
Retained earnings:			
Other capital reserves	221,082	238,430	287,650
Revenue reserve	7,109	5,582	6,634
Total equity	273,607	289,428	339,700
Net asset value per ordinary share	326.2p	324.0p	392.1p

Consolidated Cash Flow Statement

for the half year ended 30 November 2007

	Note	(Unaudited) Half year ended 30 November 2007 £'000	(Unaudited) Half year ended 30 November 2006 £'000	(Audited) Year ended 31 May 2007 £'000
Net cash inflow from operating activities	7	<u>12,541</u>	<u>26,240</u>	<u>37,309</u>
Net cash inflow before use of financing		12,541	26,240	37,309
Net cash outflow from financing activities		<u>(13,539)</u>	<u>(26,582)</u>	<u>(36,903)</u>
Net (decrease)/increase in cash and cash equivalents		(998)	(342)	406
Cash and cash equivalents at the start of the period		1,360	958	958
Exchange movements		<u>–</u>	<u>(2)</u>	<u>(4)</u>
Cash and cash equivalents at the period end		<u>362</u>	<u>614</u>	<u>1,360</u>

Notes to the Condensed Financial Statements

1. Accounting policies – basis of preparation

The condensed set of financial statements has been prepared using the same accounting policies as are set out in the Company's Report and Accounts for the year ended 31 May 2007 and in accordance with IAS 34.

The condensed set of financial statements has not been either audited or reviewed by the Company's auditors.

2. 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) will now be 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 certain. The write-back has been allocated between revenue return and capital return according to the allocation of the amounts originally paid.

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 (and subject to the outcome of a different case currently before the UK courts). 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.

Notes to the Condensed Financial Statements

continued

3. Earnings per ordinary share

The earnings per ordinary share figure is based on the net loss for the half year of £56,063,000 (half year ended 30 November 2006: gain of £37,921,000; year ended 31 May 2007: gain of £96,768,000) and on 83,696,713 (half year ended 30 November 2006: 96,379,521; year ended 31 May 2007: 92,418,217) ordinary shares, being the weighted average number of ordinary shares in issue during the period.

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

	(Unaudited) 30 November 2007 £'000	(Unaudited) 30 November 2006 £'000	(Audited) 31 May 2007 £'000
Net revenue profit	1,908	907	1,956
Net capital (loss)/profit	(57,971)	37,014	94,812
Net total (loss)/profit	(56,063)	37,921	96,768
Weighted average number of ordinary shares in issue during the period	83,696,713	96,379,521	92,418,217
	Pence	Pence	Pence
Revenue earnings per ordinary share	2.28	0.94	2.12
Capital (loss)/earnings per ordinary share	(69.26)	38.40	102.59
Total (loss)/earnings per ordinary share	(66.98)	39.34	104.71

4. Dividends

The Company has not declared an interim dividend (2006: nil).

The final dividend of 1.70p per ordinary share, paid in respect of the year ended 31 May 2007, has been recognised as a distribution in the period.

5. Ordinary share capital

At 30 November 2007 there were 83,871,030 ordinary shares in issue (30 November 2006: 89,323,030; 31 May 2007: 86,626,030). During the half year ended 30 November 2007 the Company bought 2,755,000 of its own issued ordinary shares in the market for cancellation (half year ended 30 November 2006: 10,863,252; year ended 31 May 2007: 13,560,252). The cost of the share buy-backs, including stamp duty, amounted to £8,597,000 (half year ended 30 November 2006: £28,109,000; year ended 31 May 2007: £36,687,000).

Notes to the Condensed Financial Statements

continued

6. Net asset value per share

The net asset value per ordinary share is based on the net assets attributable to equity shareholders of £273,607,000 (30 November 2006: £289,428,000; 31 May 2007: £339,700,000) and on 83,871,030 (30 November 2006: 89,323,030; 31 May 2007: 86,626,030) ordinary shares, being the number of ordinary shares in issue at the period end.

7. Reconciliation of the profit before taxation to net cash inflow from operating activities

	(Unaudited) Half year ended 30 November 2007 £'000	(Unaudited) Half year ended 30 November 2006 £'000	(Audited) Year ended 31 May 2007 £'000
(Loss)/profit before taxation	(56,063)	37,921	96,768
Losses/(gains) on investments held at fair value through profit or loss	58,408	(38,181)	(97,162)
(Decrease)/increase in purchases for future settlement creditor	(1,152)	801	1,363
(Increase)/decrease in sales for future settlement debtor	(79)	(59)	494
Net sales of investments	14,587	24,437	34,213
Decrease/(increase) in other receivables	962	739	(158)
Increase in other debtors	(1,749)	–	–
(Decrease)/increase in accruals	(2,373)	584	1,793
Taxation on investment income	–	(2)	(2)
	12,541	26,240	37,309

8. Transaction costs

Purchase transaction costs for the half year ended 30 November 2007 were £144,000 (half year ended 30 November 2006: £109,000; year ended 31 May 2007: £273,000). These comprise mainly stamp duty and commission. Sales transaction costs for the half year ended 30 November 2007 were £72,000 (30 November 2006: £67,000; year ended 31 May 2007: £138,000).

9. Comparative information

The financial information contained in this half-yearly financial report does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. The financial information for the half years ended 30 November 2007 and 30 November 2006 has not been audited.

The information for the year ended 31 May 2007 has been extracted from the statutory accounts, which have been filed with the Registrar of Companies. The report of the auditors on those accounts was unqualified and contained no statement under either section 237(2) or (3) of the Companies Act 1985.

Investment Portfolio

at 30 November 2007

	Valuation at 30 November 2007 £'000	% of portfolio		Valuation at 30 November 2007 £'000	% of portfolio
W S Atkins	15,428	5.01	Grainger Trust	3,214	1.04
WSP	11,868	3.86	Big Yellow	3,203	1.04
Informa	10,422	3.39	Capital & Regional Properties	3,187	1.04
Interserve	7,792	2.53	RPS Group	3,171	1.03
Balfour Beatty	7,442	2.42	Ultra Electronic	2,970	0.96
Laird	6,804	2.21	Babcock International	2,832	0.92
Spectris	6,711	2.18	Southern Cross Healthcare	2,738	0.89
Domino Printing	6,143	2.00	Chemring	2,731	0.89
Bellway	5,820	1.89	Restaurant Group	2,725	0.89
Intermediate Capital	5,430	1.77	Meggitt	2,665	0.86
<i>10 largest</i>	83,860	27.26	<i>40 largest</i>	191,164	62.13
Carillion	4,995	1.63	Aveva	2,602	0.85
VT Group	4,963	1.61	SIG	2,594	0.84
Mouchel Parkman	4,743	1.54	Dana Petroleum	2,584	0.84
Wellstream	4,502	1.46	Savills	2,451	0.80
CSR	4,423	1.44	Headlam	2,417	0.79
*Synergy Healthcare	4,409	1.43	*Playtech	2,326	0.76
BSS Group	4,114	1.34	John Wood	2,299	0.75
Enodis	4,011	1.31	Fidessa	2,249	0.73
Victrex	3,936	1.28	EAGA	2,128	0.69
Gyrus	3,760	1.22	NCC Group	2,118	0.69
<i>20 largest</i>	127,716	41.52	<i>50 largest</i>	214,932	69.87
Anite	3,697	1.20	Forth Ports	2,093	0.68
Premier Oil	3,694	1.20	Euromoney Institutional		
Bovis Homes	3,479	1.13	Investor	2,021	0.66
Shaftesbury	3,435	1.12	Venture Productions	1,990	0.65
Charter	3,366	1.09	Croda International	1,980	0.64
Rotork	3,344	1.09	Chloride	1,942	0.63
Phoenix	3,273	1.06	Gem Diamonds	1,938	0.63
International Ferro Metals	3,256	1.06	*IBS Opensystems	1,920	0.62
Expro International	3,248	1.05	Imperial Energy	1,894	0.62
e2v Technology	3,220	1.05	Keller	1,870	0.61
<i>30 largest</i>	161,728	52.57	Greene King	1,843	0.60
			<i>60 largest</i>	234,423	76.21

*quoted on the Alternative Investment Market

Directors and other Information

Directors

Dudley Fishburn (Chairman)
Sally Davis
James Nelson
Keith Percy
Max Taylor

Investment Manager

Henderson Global Investors Limited, represented since November 2002 by Neil Hermon and Theresa Wat.

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

Secretary

Henderson Secretarial Services Limited, represented by Geoffrey Rice ACIS

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Registered Number

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

Registrar

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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**

ISIN/SEDOL number

The SEDOL (Stock Exchange Daily Official List) number of the Company's shares is 9065060.

The logo for the Association of Investment Companies (aic) consists of the lowercase letters 'aic' in a bold, sans-serif font. The letter 'i' has a solid black dot above it.

The Association of
Investment Companies



The Henderson Smaller Companies Investment Trust plc
is managed by



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