

The Henderson Smaller Companies Investment Trust plc

Financial report for the half year ended 30 November 2008



Objective

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

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

Contents

1	Financial Highlights and Performance
2	Responsibility Statement
3	Interim Management Report
4-5	Consolidated Income Statement
6	Consolidated Statement of Changes in Equity
7	Consolidated Balance Sheet
8	Consolidated Cash Flow Statement
9-11	Notes to the Condensed Financial Statements
12	Investment Portfolio
inside back cover	Directors and other Information

Financial Highlights

	30 November 2008	30 November 2007	31 May 2008
Total net assets	£122 million	£274 million	£255 million
Net asset value per ordinary share	156.4p	326.2p	317.6p
Net asset value per ordinary share on an alternative basis*	148.4p	318.0p	310.9p
Market price per ordinary share	94.0p	249.0p	252.0p
Total return per ordinary share	(159.93)p	(66.98)p	(79.32)p
Revenue return per ordinary share	2.47p	2.28p	4.64p
Gearing†	17.7%	12.4%	12.3%

*Calculated by deducting from the net assets the debt at its market 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 2008:

	6 months %	1 year %	3 years %	5 years %
The Henderson Smaller Companies Investment Trust plc: net asset value per share*	(50.5)	(51.8)	(35.2)	2.0
The Henderson Smaller Companies Investment Trust plc: share price	(62.1)	(61.6)	(51.2)	(24.2)
Hoare Govett Smaller Companies (excluding investment companies) Index	(39.4)	(43.8)	(29.7)	5.6
FTSE SmallCap (excluding investment companies) Index	(43.8)	(49.9)	(47.2)	(30.1)
FTSE All-Share Index	(29.3)	(32.2)	(13.6)	17.8

Source: Datastream.

*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.

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

28 January 2009

Interim Management Report

Results and performance

The results for the half year ended 30 November 2008 are very disappointing, with the net asset value per share, including half year adjustments, falling by 51% from 317.6p to 156.4p. By comparison, the total return of the benchmark index was a negative 39.4%. On 3 October 2008 the Company paid a final and a special dividend, amounting in total to 3.8p per share, in respect of the year ended 31 May 2008.

Equity markets had a torrid time in the period under review. The Manager's attribution of performance for the period shows that the underperformance was attributable almost equally to stock selection and to the gearing; share buy-backs made a small positive contribution to the total return.

Investment income in the period was almost 7% ahead of the figure for the comparative period, despite a reduction in the number of shares in issue. The revenue earnings per share were 2.47p (2007: 2.28p); both figures reflect the exceptional write-back of VAT on management fees.

Share buy-backs

During the half year a total of 2.5 million shares were bought back and cancelled, representing 3% of the issued share capital at 31 May 2008. 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.

Investment activity and outlook

The 60 largest companies in the portfolio, which account for 82% of the portfolio by value, are listed on page 12.

The credit crunch has caused a major downturn in the world economy and most of the major Western economies will be in recession during 2009. However, much of the bad news has been discounted and company valuations are now at historically low levels. While there will be a degree of corporate distress in 2009, well financed businesses with pricing power are well placed to withstand the pressures of the downturn and emerge stronger into the recovery. Markets are expected to remain volatile but there are investment opportunities available, offering real value.

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.

Related party transactions

During the first six months of the current financial year, no transactions with related parties have taken place which have materially affected the financial position or performance of the Company during the period. Details of related party transactions are contained in the annual report and accounts.

Consolidated Income Statement

for the half year ended 30 November 2008

	Note	(Unaudited)		
		Half year ended 30 November 2008		
		Revenue return £'000	Capital return £'000	Total £'000
Investment income		3,280	–	3,280
Other income		275	–	275
Losses on investments held at fair value through profit or loss		–	(127,353)	(127,353)
Total income/(loss)		3,555	(127,353)	(123,798)
Expenses				
Management fees		(419)	–	(419)
Write-back of VAT	2	305	–	305
Other expenses		(187)	–	(187)
Profit/(loss) before finance costs and taxation		3,254	(127,353)	(124,099)
Finance costs		(1,309)	–	(1,309)
Profit/(loss) before taxation		1,945	(127,353)	(125,408)
Taxation		(7)	–	(7)
Profit/(loss) for the period		1,938	(127,353)	(125,415)
Earnings/(loss) per ordinary share	3	2.47p	(162.40)p	(159.93)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.

Revenue return £'000	(Unaudited) Half year ended 30 November 2007		Revenue return £'000	(Audited) Year ended 31 May 2008	
	Capital return £'000	Total £'000		Capital return £'000	Total £'000
3,069	–	3,069	7,086	–	7,086
60	–	60	108	–	108
–	(58,408)	(58,408)	–	(70,417)	(70,417)
<u>3,129</u>	<u>(58,408)</u>	<u>(55,279)</u>	<u>7,194</u>	<u>(70,417)</u>	<u>(63,223)</u>
(666)	–	(666)	(1,156)	–	(1,156)
1,312	437	1,749	1,312	437	1,749
(197)	–	(197)	(373)	–	(373)
<u>3,578</u>	<u>(57,971)</u>	<u>(54,393)</u>	<u>6,977</u>	<u>(69,980)</u>	<u>(63,003)</u>
(1,670)	–	(1,670)	(3,109)	–	(3,109)
<u>1,908</u>	<u>(57,971)</u>	<u>(56,063)</u>	<u>3,868</u>	<u>(69,980)</u>	<u>(66,112)</u>
–	–	–	–	–	–
<u>1,908</u>	<u>(57,971)</u>	<u>(56,063)</u>	<u>3,868</u>	<u>(69,980)</u>	<u>(66,112)</u>
<u>2.28p</u>	<u>(69.26)p</u>	<u>(66.98)p</u>	<u>4.64p</u>	<u>(83.96)p</u>	<u>(79.32)p</u>

Consolidated Statement of Changes in Equity

for the half year ended 30 November 2008

	(Unaudited)				
	Half year ended 30 November 2008				
	Called up share capital £'000	Capital redemption reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
Balance at 31 May 2008	20,113	25,303	200,986	9,069	255,471
Buy-backs of ordinary shares	(613)	613	(5,079)	–	(5,079)
(Loss)/profit for the period	–	–	(127,353)	1,938	(125,415)
Ordinary dividends paid	–	–	–	(3,007)	(3,007)
Balance at 30 November 2008	19,500	25,916	68,554	8,000	121,970

	(Unaudited)				
	Half year ended 30 November 2007				
	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	(689)	689	(8,597)	–	(8,597)
(Loss)/profit for the period	–	–	(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

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

Consolidated Balance Sheet

at 30 November 2008

	Note	(Unaudited) 30 November 2008 £'000	(Unaudited) 30 November 2007 £'000	(Audited) 31 May 2008 £'000
Non current assets				
Investments held at fair value through profit or loss		143,538	307,619	286,819
Current assets				
Sales for future settlement		161	553	69
Taxation recoverable		29	12	23
Prepayments and accrued income		303	479	1,450
Cash and cash equivalents		514	362	672
Other debtors		2,266	1,754	1,748
		3,273	3,160	3,962
Total assets		146,811	310,779	290,781
Current liabilities				
Purchases for future settlement		(143)	(379)	(1,607)
Accruals		(191)	(269)	(199)
Bank loans and overdrafts		(4,503)	(16,520)	(13,500)
		(4,837)	(17,168)	(15,306)
Total assets less current liabilities		141,974	293,611	275,475
Non current liabilities		(20,004)	(20,004)	(20,004)
Net assets		121,970	273,607	255,471
Equity attributable to equity shareholders				
Called up share capital	5	19,500	20,968	20,113
Capital redemption reserve		25,916	24,448	25,303
Retained earnings:				
Other capital reserves		68,554	221,082	200,986
Revenue reserve		8,000	7,109	9,069
Total equity		121,970	273,607	255,471
Net asset value per ordinary share	6	156.4p	326.2p	317.6p

Consolidated Cash Flow Statement

for the half year ended 30 November 2008

	Note	(Unaudited) Half year ended 30 November 2008 £'000	(Unaudited) Half year ended 30 November 2007 £'000	(Audited) Year ended 31 May 2008 £'000
Net cash inflow from operating activities	7	16,923	12,541	24,009
Net cash inflow before use of financing		16,923	12,541	24,009
Net cash outflow from financing activities		(17,084)	(13,539)	(24,723)
Net decrease in cash and cash equivalents		(161)	(998)	(714)
Cash and cash equivalents at the start of the period		672	1,360	1,360
Exchange movements		3	–	26
Cash and cash equivalents at the period end		514	362	672

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 2008 and in accordance with IAS34.

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

2. VAT on management fees

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

The Manager (Henderson Global Investors Limited) is in the process of reclaiming from HMRC the amount of VAT charged to the Company in respect of investment management services from 1 October 2000 to 2007. An amount of £1,749,000 was recognised in the prior year, reflecting the extent that recovery by the Company was then considered to be certain, and a further £305,000 has been recognised in this period. The write-back has been allocated between revenue return and capital return according to the allocation of the amounts originally paid. VAT has not been applied to investment management fees invoiced since September 2007.

The Company may be able to recover further amounts of the VAT charged on investment management fees back to 1990, 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. An amount of £200,000 has been recognised in this period as a prudent estimate of the amount receivable.

Notes to the Condensed Financial Statements

continued

3. Earnings/(loss) per ordinary share

The earnings per ordinary share figure is based on the net losses for the half year of £125,415,000 (half year ended 30 November 2007: £56,063,000; year ended 31 May 2008: £66,112,000) and on 78,418,478 (half year ended 30 November 2007: 83,696,713; year ended 31 May 2008: 83,350,298) 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 2008 £'000	(Unaudited) 30 November 2007 £'000	(Audited) 31 May 2008 £'000
Net revenue profit	1,938	1,908	3,868
Net capital loss	(127,353)	(57,971)	(69,980)
Net total loss	(125,415)	(56,063)	(66,112)
Weighted average number of ordinary shares in issue during the period	78,418,478	83,696,713	83,350,298
	Pence	Pence	Pence
Revenue earnings per ordinary share	2.47	2.28	4.64
Capital loss per ordinary share	(162.40)	(69.26)	(83.96)
Total loss per ordinary share	(159.93)	(66.98)	(79.32)

4. Dividends

The Company has not declared an interim dividend (2007: nil).

The final dividend of 2.20p per ordinary share and the special dividend of 1.60p per ordinary share, paid in respect of the year ended 31 May 2008, have been recognised as distributions in the period.

5. Called up share capital

At 30 November 2008 there were 77,997,046 ordinary shares in issue (30 November 2007: 83,871,030; 31 May 2008: 80,449,030). During the half year ended 30 November 2008 the Company bought 2,451,984 of its own issued ordinary shares in the market for cancellation (half year ended 30 November 2007: 2,755,000; year ended 31 May 2008: 6,177,000). The cost of the share buy-backs, including stamp duty, amounted to £5,079,000 (half year ended 30 November 2007: £8,597,000; year ended 31 May 2008: £16,684,000).

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 £121,970,000 (30 November 2007: £273,607,000; 31 May 2008: £255,471,000) and on 77,997,046 (30 November 2007: 83,871,030; 31 May 2008: 80,449,030) ordinary shares, being the number of ordinary shares in issue at the period end.

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

	(Unaudited) Half year ended 30 November 2008 £'000	(Unaudited) Half year ended 30 November 2007 £'000	(Audited) Year ended 31 May 2008 £'000
Loss before taxation	(125,408)	(56,063)	(66,112)
Losses on investments held at fair value through profit or loss	127,353	58,408	70,417
(Decrease)/increase in purchases for future settlement creditor	(1,464)	(1,152)	76
(Increase)/decrease in sales for future settlement debtor	(92)	(79)	405
Net sales of investments	15,926	14,587	23,409
Decrease/(increase) in other receivables	1,147	962	(1,752)
Increase in other debtors	(518)	(1,749)	–
Decrease in accruals	(8)	(2,373)	(2,423)
Taxation on investment income	(13)	–	(11)
	<u>16,923</u>	<u>12,541</u>	<u>24,009</u>

8. Transaction costs

Purchase transaction costs for the half year ended 30 November 2008 were £48,000 (half year ended 30 November 2007: £144,000; year ended 31 May 2008: £266,000). These comprise mainly stamp duty and commission. Sales transaction costs for the half year ended 30 November 2008 were £30,000 (half year ended 30 November 2007: £72,000; year ended 31 May 2008: £116,000).

9. Comparative information

The financial information contained in this half-yearly financial report does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. The financial information for the half years ended 30 November 2008 and 30 November 2007 has not been audited.

The information for the year ended 31 May 2008 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 498(2) or section 498(3) of the Companies Act 2006.

Investment Portfolio

at 30 November 2008

	Valuation at 30 November 2008 £'000	% of portfolio		Valuation at 30 November 2008 £'000	% of portfolio
W S Atkins	5,506	3.84	Chloride	1,495	1.04
WSP	5,175	3.61	Bovis Homes	1,492	1.04
Informa	4,878	3.40	Keller	1,466	1.02
Bellway	4,450	3.10	Babcock International	1,440	1.00
Balfour Beatty	4,437	3.09	*RWS Group	1,406	0.98
Spectris	3,723	2.59	Melrose	1,339	0.93
Domino Printing	3,449	2.40	Halfords	1,320	0.92
Interserve	3,407	2.37	NCC Group	1,296	0.90
Carillion	3,360	2.34	Big Yellow	1,272	0.89
Victrex	2,888	2.01	Wellstream Holdings	1,251	0.87
<i>10 largest</i>	<u>41,273</u>	<u>28.75</u>	<i>40 largest</i>	<u>96,517</u>	<u>67.24</u>
Ultra Electronic	2,865	2.00	Meggitt	1,233	0.86
VT Group	2,767	1.93	Charter International	1,195	0.83
Intermediate Capital	2,725	1.90	Renishaw	1,193	0.83
Rotork	2,652	1.85	Greene King	1,174	0.82
Mouchel Parkman	2,593	1.81	RPS Group	1,134	0.79
Croda	2,366	1.65	Fidessa	1,125	0.78
Chemring	2,244	1.56	Euromoney Institutional Investor	1,088	0.76
Costain	2,118	1.48	Laird	1,065	0.74
Anite	2,036	1.42	Consort Medical	1,050	0.73
BSS Group	1,929	1.34	Aveva	1,050	0.73
<i>20 largest</i>	<u>65,568</u>	<u>45.69</u>	<i>50 largest</i>	<u>107,824</u>	<u>75.11</u>
e2v technologies	1,916	1.33	Capital & Regional	1,010	0.70
Savills	1,914	1.33	Care UK	1,009	0.70
Premier Oil	1,814	1.26	Wood Group	978	0.68
Restaurant Group	1,807	1.26	Rathbone Brothers	962	0.67
Imperial Energy	1,692	1.18	Headlam	942	0.66
Phoenix	1,682	1.17	Oxford Instruments	923	0.64
Synergy Healthcare	1,645	1.15	CSR	895	0.62
*Playtech	1,601	1.12	International Ferro Metals	887	0.62
EAGA	1,568	1.09	Paragon	885	0.62
Shaftesbury	1,533	1.07	SIG	870	0.61
<i>30 largest</i>	<u>82,740</u>	<u>57.65</u>	<i>60 largest</i>	<u>117,185</u>	<u>81.63</u>

*quoted on the Alternative Investment Market

Directors and other Information

Directors

Dudley Fishburn (Chairman)
Sally Davis
James Nelson
Keith Percy
Mary Ann Sieghart

Investment Manager

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

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

Secretary

Henderson Secretarial Services Limited, represented by Geoffrey Rice ACIS

Registered Office

201 Bishopsgate
London EC2M 3AE
Telephone: 020 7818 1818

Registered Number

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

Registrar

Computershare Investor Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH
Telephone: 0870 703 0194

Registered Auditors

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

Stockbrokers

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

Solicitors

Slaughter and May
One Bunhill Row
London EC1Y 8YY

Website

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.

Halifax Share Dealing Limited ("HSDL")

(Investors in Itshenderson will be transferred to HSDL on 31 January 2009)
Lovell Park Road
Leeds
LS1 1NS
Telephone: 0845 6090 408

Calls to this number from a BT landline are charged at 2p per minute plus a 7p connection charge. Other telephone costs may vary.
Email: communications@halifax.co.uk



The Association of
Investment Companies



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is managed by



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