

The Henderson Smaller Companies Investment Trust plc

Financial report for the half year ended 30 November 2010



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 Index (excluding investment companies).

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Financial Highlights

	30 November 2010	30 November 2009	31 May 2010
Total net assets	£247 million	£186 million	£208 million
Net asset value per ordinary share	330.4p	248.1p	277.1p
Net asset value per ordinary share on an alternative basis*	323.3p	240.9p	269.7p
Market price per ordinary share	265.0p	196.0p	216.0p
Total return per ordinary share	56.9p	50.5p	79.3p
Revenue return per ordinary share	1.5p	2.3p	4.6p
Gearing†	8.3%	11.6%	9.5%

*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 2010:

	6 months %	1 year %	3 years %	5 years %
The Henderson Smaller Companies Investment Trust plc: net asset value per share	22.1	35.3	6.4	43.1
The Henderson Smaller Companies Investment Trust plc: share price	24.3	37.0	12.7	43.4
Hoare Govett Smaller Companies Index (excluding investment companies)	12.7	21.0	9.0	36.3
FTSE SmallCap Index (excluding investment companies)	9.8	8.5	(13.8)	(9.0)
FTSE All-Share Index	8.6	11.5	(2.3)	24.5

Source: Association of Investment Companies and Datastream.

Interim Management Report

Results and performance

The results for the half year ended 30 November 2010 are good, in both absolute and relative terms. The net asset value per share rose from 277.1p to 330.4p, a total return for the period of 22.1%. By comparison, the total return of the benchmark index was 12.7%. On 8 October 2010 the Company paid a final dividend of 3.6p per share, in respect of the year ended 31 May 2010. The share price total return for the period was 24.3%.

Equity markets continued their recovery over the half year, although the progress was not constant. Generally companies have produced strong results but against a background of variable macro economic news. The Manager's attribution of the Company's results for the period shows that the outperformance was attributable primarily to stock selection. Gearing was applied cautiously but to beneficial effect.

The revenue earnings per share were 1.48p (2009: 2.30p). The investment income per share grew by about 5% but the prior period included two sources of other income that have not been repeated: income from sub-underwriting commitments and interest from HM Revenue & Customs on the refunds of VAT received. The management fee increased, reflecting the recovery in the value of the Company's assets. Provision has been made for a performance fee to be paid; this assumes that the strong performance will be maintained to the year end (31 May 2011) and is allocated to capital.

Continuation

In accordance with the established three-year cycle, a continuation vote was put to the Annual General Meeting on 24 September 2010. A total of 53.8 million votes were cast of which only 0.9 million were against continuation.

Share buy-backs

No shares were bought back during the period. The Board is encouraged by the interest in the Company shown by new investors but monitors the discount closely. It 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 79% of the investments by value, are listed on page 12. Most of the investments were held throughout the period.

The global economic situation is improving, with developed economies enjoying modest growth and emerging economies displaying stronger conditions. There are a number of headwinds, including the threat of inflation, sovereign debt risk and higher interest rates. However, corporate profitability is robust and equities represent good value, based on forecast earnings for 2011. In addition, corporate activity has increased, with small and medium sized companies in the UK attracting particular interest from foreign corporates. We expect the markets to remain choppy but to make progress over the coming months. Gearing will be used to take up particular investment opportunities as they arise.

Regulatory Disclosures

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 Company's Annual Report for the year ended 31 May 2010.

Principal 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.

Information on these risks is given in the Directors' Report and in the Notes to the Financial Statements in the Company's Annual Report for the year ended 31 May 2010. In the view of the Board these principal risks and

uncertainties are applicable to the remaining six months of the financial year as they were to the six months under review.

Directors' Responsibility Statement

The directors confirm that, to the best of their 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).

For and on behalf of the Board

J Dudley Fishburn

Chairman

18 January 2011

Consolidated Statement of Comprehensive Income

for the half year ended 30 November 2010

	Note	(Unaudited)		
		Half year ended 30 November 2010		
		Revenue return £'000	Capital return £'000	Total £'000
Investment income		2,772	–	2,772
Other income		4	–	4
Gains on investments held at fair value through profit or loss		–	42,537	42,537
Total income		2,776	42,537	45,313
Expenses				
Management fees		(413)	–	(413)
Performance fee		–	(1,008)	(1,008)
Write-back of VAT	2	–	–	–
Other expenses		(194)	–	(194)
Profit before finance costs and taxation		2,169	41,529	43,698
Finance costs		(1,056)	–	(1,056)
Profit before taxation		1,113	41,529	42,642
Taxation		(1)	–	(1)
Profit for the period and total comprehensive income		1,112	41,529	42,641
Earnings per ordinary share	3	1.48p	55.44p	56.92p

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

The Group does not have any Other Comprehensive Income and hence the net profit, as disclosed above, is the same as the Group's Total Comprehensive Income.

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 2009			(Audited) Year ended 31 May 2010		
Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
2,647	–	2,647	5,961	–	5,961
606	–	606	627	–	627
–	36,204	36,204	–	56,091	56,091
<u>3,253</u>	<u>36,204</u>	<u>39,457</u>	<u>6,588</u>	<u>56,091</u>	<u>62,679</u>
(303)	–	(303)	(679)	–	(679)
–	–	–	–	–	–
45	–	45	44	–	44
(209)	–	(209)	(373)	–	(373)
<u>2,786</u>	<u>36,204</u>	<u>38,990</u>	<u>5,580</u>	<u>56,091</u>	<u>61,671</u>
(1,060)	–	(1,060)	(2,129)	–	(2,129)
<u>1,726</u>	<u>36,204</u>	<u>37,930</u>	<u>3,451</u>	<u>56,091</u>	<u>59,542</u>
(1)	–	(1)	(2)	–	(2)
<u>1,725</u>	<u>36,204</u>	<u>37,929</u>	<u>3,449</u>	<u>56,091</u>	<u>59,540</u>
<u>2.30p</u>	<u>48.17p</u>	<u>50.47p</u>	<u>4.59p</u>	<u>74.70p</u>	<u>79.29p</u>

Consolidated Statement of Changes in Equity

for the half year ended 30 November 2010

	(Unaudited) Half year ended 30 November 2010				
	Called up share capital £'000	Capital redemption reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
Total equity at 31 May 2010	18,727	26,694	151,870	10,242	207,533
Total comprehensive income:					
Profit for the period	–	–	41,529	1,112	42,641
Transactions with owners, recorded directly to equity:					
Ordinary dividend paid	–	–	–	(2,696)	(2,696)
Buy-backs of ordinary shares	–	–	–	–	–
Total equity at 30 November 2010	18,727	26,694	193,399	8,658	247,478

	(Unaudited) Half year ended 30 November 2009				
	Called up share capital £'000	Capital redemption reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
Total equity at 31 May 2009	19,343	26,078	99,930	10,998	156,349
Total comprehensive income:					
Profit for the period	–	–	36,204	1,725	37,929
Transactions with owners, recorded directly to equity:					
Ordinary dividend paid	–	–	–	(4,204)	(4,204)
Buy-backs of ordinary shares	(578)	578	(3,814)	–	(3,814)
Total equity at 30 November 2009	18,765	26,656	132,320	8,519	186,260

	(Audited) Year ended 31 May 2010				
	Called up share capital £'000	Capital redemption reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
Total equity at 31 May 2009	19,343	26,078	99,930	10,998	156,349
Total comprehensive income:					
Profit for the year	–	–	56,091	3,449	59,540
Transactions with owners, recorded directly to equity:					
Ordinary dividend paid	–	–	–	(4,205)	(4,205)
Buy-backs of ordinary shares	(616)	616	(4,151)	–	(4,151)
Total equity at 31 May 2010	18,727	26,694	151,870	10,242	207,533

Consolidated Balance Sheet

at 30 November 2010

	(Unaudited) 30 November 2010 £'000	(Unaudited) 30 November 2009 £'000	(Audited) 31 May 2010 £'000
Note			
Non current assets			
Investments held at fair value through profit or loss	267,978	207,906	227,323
Current assets			
Securities sold for future settlement	1,055	101	1,431
Taxation recoverable	39	38	–
Prepayments and accrued income	323	443	–
Cash and cash equivalents	2,090	1,162	1,097
	3,507	1,744	2,528
Total assets	271,485	209,650	229,851
Current liabilities			
Securities purchased for future settlement	(1,783)	(198)	(311)
Accruals and deferred income	(1,220)	(188)	–
Bank loans	(1,000)	(3,000)	(2,003)
	(4,003)	(3,386)	(2,314)
Total assets less current liabilities	267,482	206,264	227,537
Non current liabilities	(20,004)	(20,004)	(20,004)
Net assets	247,478	186,260	207,533
Equity attributable to equity shareholders			
Called up share capital	18,727	18,765	18,727
Capital redemption reserve	26,694	26,656	26,694
Retained earnings:			
Capital reserves	193,399	132,320	151,870
Revenue reserve	8,658	8,519	10,242
Total equity	247,478	186,260	207,533
Net asset value per ordinary share	330.4p	248.1p	277.1p

Consolidated Cash Flow Statement

for the half year ended 30 November 2010

	Note	(Unaudited) Half year ended 30 November 2010 £'000	(Unaudited) Half year ended 30 November 2009 £'000	(Audited) Year ended 31 May 2010 £'000
Net cash inflow from operating activities	7	4,692	5,946	7,216
Net cash inflow before use of financing		4,692	5,946	7,216
Net cash outflow from financing activities		(3,699)	(5,018)	(6,353)
Net increase in cash and cash equivalents		993	928	863
Cash and cash equivalents at the start of the period		1,097	234	234
Cash and cash equivalents at the period end		2,090	1,162	1,097

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 Financial Statements for the year ended 31 May 2010 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

As at 31 May 2010 the Company had received back from HM Revenue & Customs all of the VAT on investment management fees that had been borne by the Company in respect of the periods 1990 to 1996 and 2000 to 2007, as well as simple interest on those amounts.

There remain outstanding claims relating to the period 1996 to 2000 and claims for compound interest from 1990 onwards. No amounts have been recognised as it is uncertain whether any further amounts will be recovered.

3. Earnings per ordinary share

The earnings per ordinary share figure is based on the net profit for the half year of £42,641,000 (half year ended 30 November 2009: £37,929,000; year ended 31 May 2010: £59,540,000) and on 74,906,796 (half year ended 30 November 2009: 75,151,294; year ended 31 May 2010: 75,089,586) 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 2010 £'000	(Unaudited) 30 November 2009 £'000	(Audited) 31 May 2010 £'000
Net revenue profit	1,112	1,725	3,449
Net capital profit	<u>41,529</u>	<u>36,204</u>	<u>56,091</u>
Net total profit	<u>42,641</u>	<u>37,929</u>	<u>59,540</u>
Weighted average number of ordinary shares in issue during the period	74,906,796	75,151,294	75,089,586
	Pence	Pence	Pence
Revenue profit per ordinary share	1.48	2.30	4.59
Capital profit per ordinary share	<u>55.44</u>	<u>48.17</u>	<u>74.70</u>
Total profit per ordinary share	<u>56.92</u>	<u>50.47</u>	<u>79.29</u>

Notes to the Condensed Financial Statements

continued

4. Dividends

The Company has not declared an interim dividend (2009: nil).

The final dividend of 3.60p per ordinary share paid, on 8 October 2010, in respect of the year ended 31 May 2010, has been recognised as a distribution in the period.

5. Called up share capital

At 30 November 2010 there were 74,906,796 ordinary shares in issue (30 November 2009: 75,060,296; 31 May 2010: 74,906,796). During the half year ended 30 November 2010 the Company did not buy back any of its own issued ordinary shares in the market for cancellation (half year ended 30 November 2009: 2,310,000; year ended 31 May 2010: 2,463,500). The cost of the share buy-backs, including stamp duty, amounted to £nil (half year ended 30 November 2009: £3,814,000; year ended 31 May 2010: £4,151,000).

6. Net asset value per share

The net asset value per ordinary share is based on the net assets attributable to the equity shareholders of £247,478,000 (30 November 2009: £186,260,000; 31 May 2010: £207,533,000) and on 74,906,796 (30 November 2009: 75,060,296; 31 May 2010: 74,906,796) ordinary shares, being the number of ordinary shares in issue at the period end.

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

	(Unaudited) Half year ended 30 November 2010 £'000	(Unaudited) Half year ended 30 November 2009 £'000	(Audited) Year ended 31 May 2010 £'000
Profit before taxation	42,642	37,930	59,542
Profit on investments held at fair value through profit or loss	(42,537)	(36,204)	(56,091)
Increase/(decrease) in purchases for future settlement creditor	1,676	(682)	(773)
(Increase)/decrease in sales for future settlement debtor	(492)	411	(51)
Net sales of investments	1,882	2,529	3,000
Decrease in other receivables	505	1,007	622
Decrease in other debtors	9	855	846
Increase in accruals	1,016	101	117
Taxation on investment income	(9)	(1)	4
	<u>4,692</u>	<u>5,946</u>	<u>7,216</u>

Notes to the Condensed Financial Statements

continued

8. Transaction costs

Purchase transaction costs for the half year ended 30 November 2010 were £139,000 (half year ended 30 November 2009: £60,000; year ended 31 May 2010: £145,000). These comprise mainly stamp duty and commission. Sale transaction costs for the half year ended 30 November 2010 were £40,000 (half year ended 30 November 2009: £35,000; year ended 31 May 2010: £64,000).

9. Going concern

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

10. 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 2010 and 30 November 2009 has not been audited.

The information for the year ended 31 May 2010 has been extracted from the statutory accounts for that year, 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 2010

	Valuation at 30 November 2010 £'000	% of portfolio		Valuation at 30 November 2010 £'000	% of portfolio
Informa	9,092	3.39	Charter	2,841	1.06
WSP	8,496	3.17	Synergy Healthcare	2,794	1.04
Croda	7,851	2.93	Spirent Communications	2,755	1.03
Spectris	7,759	2.89	Carphone Warehouse	2,641	0.99
Domino Printing Sciences	6,894	2.57	Shaftesbury	2,610	0.97
Victrex	6,399	2.39	Taylor Wimpey	2,560	0.96
e2v technologies	6,072	2.27	Chime Communications	2,530	0.94
Intermediate Capital	5,943	2.22	CPP Group	2,515	0.94
Premier Oil	5,508	2.06	SIG	2,500	0.93
Melrose	5,279	1.97	Anite	2,475	0.92
<i>10 largest</i>	69,293	25.86	<i>40 largest</i>	168,835	63.00
Oxford Instruments	4,923	1.84	Greene King	2,436	0.91
Carillion	4,816	1.80	Grainger	2,419	0.90
WS Atkins	4,550	1.70	CSR	2,384	0.89
Bellway	4,241	1.58	AZ Electronic Materials	2,380	0.89
Rotork	4,106	1.53	GlobeOp Financial Services	2,360	0.88
Paragon	3,955	1.47	ITE Group	2,245	0.84
Restaurant Group	3,809	1.42	Hyder Consulting	2,198	0.82
Balfour Beatty	3,696	1.38	LSL Property Services	2,160	0.81
Senior	3,596	1.34	Debenhams	2,150	0.80
Chemring	3,581	1.34	Dunelm	2,113	0.79
<i>20 largest</i>	110,566	41.26	<i>50 largest</i>	191,680	71.53
Laird	3,564	1.33	Costain	2,086	0.78
Ultra Electronic	3,434	1.28	NCC Group	2,038	0.76
EuroMoney Institutional Investor	3,352	1.25	Aberdeen Asset Management	2,005	0.75
John Menzies	3,255	1.22	Heritage Oil	1,967	0.73
Interserve	3,185	1.19	Meggitt	1,955	0.73
Northgate	3,182	1.19	Halfords	1,881	0.70
Fidessa	3,170	1.18	Capital & Regional	1,845	0.69
Babcock International	3,037	1.13	Phoenix	1,841	0.69
Aveva Group	3,000	1.12	Kofax	1,811	0.67
Renishaw	2,869	1.07	Hochschild Mining	1,788	0.67
<i>30 largest</i>	142,614	53.22	<i>60 largest</i>	210,897	78.70

Directors and other Information

Directors

Dudley Fishburn (*Chairman*)
James Nelson (*Senior Independent Director*)
Keith Percy
Mary Ann Sieghart
Beatrice Hollond (*Chairman of the Audit Committee*)

Manager

Henderson Global Investors Limited,
represented by Neil Hermon

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

Company Secretary

Henderson Secretarial Services Limited,
represented by Geoffrey Rice ACIS

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Website

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

Share Identification Codes

SEDOL: 0906506
ISIN: GB0009065060
EPIC: HSL

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The Association of
Investment Companies



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