

The Henderson Smaller Companies Investment Trust plc

Report and Financial Statements for the year ended 31 May 2014



The Henderson Smaller Companies Investment Trust plc

Objective	The objective of The Henderson Smaller Companies Investment Trust plc is to maximise shareholders' total returns by investing mainly in smaller companies that are quoted in the United Kingdom.
Investment selection	The investment selection process seeks, by rigorous research, to identify high-quality smaller companies with strong growth potential. Generally new investments are made in constituents of the benchmark index. Investments may continue to be held when the underlying companies grow out of the smaller companies sector but strong selling disciplines are applied regardless of the size of the entity.
Benchmark Index	Numis Smaller Companies Index (excluding investment companies).*
Manager	The Board has appointed Henderson Investment Funds Limited to manage the investments and to provide the related administrative services.
Independent Board	The Directors, who are independent of the Manager, meet regularly to consider investment strategy and to monitor the performance of the Company.
Website	Information about the Company can be found on the website www.hendersonsmallercompanies.com

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



Financial Highlights

	31 May 2014	31 May 2013
Total net assets	£476 million	£403 million
Net asset value per ordinary share	637.6p	540.0p
Net asset value per ordinary share on an alternative basis*	634.3p	535.0p
Market price per ordinary share	547.0p	454.0p
Total return per ordinary share	107.0p	171.0p
Revenue return per ordinary share	12.7p	6.2p
Dividends per ordinary share[#]	11.0p	6.5p
Gearing[†]	9.1%	8.2%

*Calculated by deducting from the net assets the debt at its market value, as disclosed in note 19 on page 56.

[#]An interim dividend of 3.0p was paid on 7 March 2014. The final dividend of 8.0p is subject to approval at the Annual General Meeting.

[†]Calculated in accordance with the definition on page 58.

Performance: comparative total return figures for periods ended 31 May 2014

	1 year %	2 years %	3 years %	5 years %	10 years %
The Henderson Smaller Companies Investment Trust plc:					
Net asset value per share[*]	19.92 ⁽¹⁾	75.14 ⁽¹⁾	66.89 ⁽¹⁾	239.76 ⁽¹⁾	306.84 ⁽²⁾
The Henderson Smaller Companies Investment Trust plc: share price ⁽²⁾	22.67	99.15	80.20	259.61	364.49
Numis Smaller Companies Index (excluding investment companies) ^{(3)#}	19.13	65.91	53.16	162.68	242.28
FTSE SmallCap Index (excluding investment companies) ⁽³⁾	23.87	80.92	63.99	144.07	113.55
FTSE All-Share Index ⁽³⁾	8.86	41.64	30.31	92.83	135.13

Sources: (1) Henderson Global Investors (2) Morningstar (3) Datastream;

The net asset value total return figures are calculated on the basis that the Company's issue of Debenture Stock is included at its par value, as in the financial statements that follow.

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

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

Historical Record

Year end	Market price per ordinary share in pence	Net asset value per ordinary share in pence*	Revenue earnings per ordinary share in pence*	Final dividend per ordinary share in pence	Interim dividend per ordinary share in pence	Special dividend per ordinary share in pence [†]
31 May 2004	134.8	172.1	1.17	1.00	—	—
31 May 2005	169.5	214.5	1.44	1.15	—	—
31 May 2006	232.8	280.4	1.83	1.35	—	—
31 May 2007	323.5	392.1	2.12	1.70	—	—
31 May 2008	252.0	317.6	4.64	2.20	—	1.60
31 May 2009	167.0	202.1	6.30	3.00	—	2.60
31 May 2010	216.0	277.1	4.59	3.60	—	—
31 May 2011	319.4	398.1	4.91	4.20	—	—
31 May 2012	284.3	374.5	6.07	5.50	—	—
31 May 2013	454.0	540.0	6.24	6.50	—	—
31 May 2014	547.0	637.6	12.67	8.00	3.00	—

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

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

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Strategic Report

Chairman's Statement



Jamie Cayzer-Colvin

It has been another excellent year for the Company with a 22.7% total return for shareholders. The net asset value of the Company increased by 19.9% in the year on a total return basis and again outperformed its benchmark, the Numis Smaller Companies Index (excluding investment companies) which increased by 19.1%.

Over the past ten years our net asset value total return has been 306.8% versus a total return from the Numis Smaller Companies Index (excluding investment companies) of 242.3%, the FTSE All-Share Index of 135.1% and the FTSE SmallCap Index of 113.6%. This is a compound annual return to shareholders of 15.1% and is testimony to the skills of our Manager, Neil Hermon.

The Company's performance over the past year has for the second year been recognised by Money Observer, with the Company being awarded Best UK Smaller Companies Trust 2014.

I would like to thank all the Henderson staff and my Board for their efforts throughout the year on behalf of shareholders.

Revenue and dividend

The revenue return per share has increased to 12.7p, compared with 6.2p for the previous year. This increase is due in part to the change in accounting policy to charge a proportion of expenses to capital and also reflects the growth in dividend payments from our portfolio companies. The Board proposes an increase in the final dividend for the year to 8.0p per share, making a total dividend for the year of 11.0p (2013: 6.5p) as an interim dividend of 3.0p was paid in March. The final dividend is of course subject to shareholder approval at the Annual General Meeting in October.

Discount* and Share buy-backs

During the year the smaller companies sector as a whole traded at an average discount of 9.2% to NAV, with highs and lows of 13.3% and 6.0% respectively. At the year end, the Company's shares traded at a discount of 12.9%. The Company's discount ranged from 18.7% to 8.0% with the

average discount over the year being 12.7%.

The Board continues to keep a close eye on the discount and will from time to time buy back shares, even though we do not believe that share buy-backs have a significant effect on the discount other than in the short term.

Regulatory

In accordance with the Alternative Investment Fund Managers Directive, the Company has appointed Henderson Investment Funds Limited to act as its Alternative Investment Fund Manager. HSBC Bank plc has been appointed as the Company's Depositary. Further details are contained in the Strategic Review.

Outlook

Uncertainty faces the UK, with votes on Scottish independence in September this year and a UK-wide general election in 2015. However, at long last the buds of economic growth are appearing in Western economies. Good news continues to flow from the corporate world, and the smaller companies market will continue to produce some exciting growth opportunities. So with Neil's proven and disciplined approach to investing, I believe we are well set for the year ahead.

Annual General Meeting

Our Annual General Meeting will be held at 10:30am on Friday, 3 October 2014 at the Registered Office, 201 Bishopsgate, London EC2M 3AE. The Notice of Meeting is set out in the accompanying circular to shareholders. We would encourage as many shareholders as possible to attend for the opportunity to meet the Board and to watch a presentation from Neil Hermon reviewing the year and looking forward to the year ahead.

J M B Cayzer-Colvin

Chairman

29 August 2014

*The annual discount is calculated as a simple average of the daily discounts downloaded from Datastream

Strategic Report

Fund Manager's Review



Neil Hermon

Analysis of the portfolio by sector	31 May 2014 %	31 May 2013 %
Support Services	17.9	19.4
Electronic & Electrical Equipment	10.7	11.7
Real Estate	8.0	7.3
Travel & Leisure	7.6	7.0
Media	6.8	7.3
Software & Computer Services	6.2	5.1
Financial Services	6.1	7.0
Household Goods & Home Construction	4.9	5.7
General Retailers	3.8	2.8
Aerospace & Defence	3.6	3.1
Construction & Materials	3.0	3.4
Technology Hardware & Equipment	2.7	2.6
Pharmaceuticals & Biotechnology	2.7	1.6
Health Care Equipment & Services	2.6	2.0
Chemicals	2.6	3.9
Oil & Gas Producers	2.5	3.7
Oil Equipment, Services & Distribution	2.4	2.0
Industrial Engineering	2.3	2.8
Personal Goods	0.9	0.7
Non-Life Insurance	0.8	–
Industrial Transportation	0.8	–
Mining	0.5	0.3
Food & Drug Retailers	0.3	–
Food Producers	0.3	0.2
Mobile Telecommunications	–	0.4
	100.0	100.0

Market – year in review

The year under review was a positive one for equity markets. This was due to loose monetary policies from developed world Central Banks, a gently improving global macro-economic situation and the relative attractiveness of equities over other asset classes. Additionally the fundamentals of the corporate sector continued to improve. Companies increased their profits, enabling dividends to grow. Balance sheets remained strong. Mergers and acquisition activity, however, remained subdued as management teams were unwilling to take on financial leverage in the face of perceived economic uncertainty.

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

Fund performance

The Company had a good year in performance terms – outperforming its benchmark and rising in absolute terms. The net asset value rose 19.9%, on a total return basis. This compares to a rise of 19.1% (total return) from the Numis Smaller Companies Index (excluding investment companies) and 23.9% (total return) from the FTSE Small Cap Index (excluding investment companies). The outperformance came from a combination of underlying positive portfolio performance and a positive contribution from gearing in the Company, which can be seen in the attribution analysis on page 15. The year under review is the tenth year of outperformance of our benchmark, the Numis Smaller Companies Index (excluding investment companies), in the last eleven years.

Gearing

Gearing started the year at 8.2% and ended it at 9.1%. The majority of the gearing is provided by the £20 million 10.5% 2016 Debenture with the remainder by short term bank borrowings. Gearing was a positive contributor to performance in the year as markets rose and has been a significant positive over the eleven years I have managed the investment portfolio.

Attribution analysis

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

	12 month return %	Relative contribution %
Principal contributors		
WS Atkins	+53.4	+0.5
Ashtead	+41.2	+0.4
Kenmare Resources*	-61.0	+0.4
Partnership Assurance*	-65.2	+0.4
Kentz	+85.5	+0.4

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

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Fund Manager's Review

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WS Atkins is an international engineering consultant, with operations principally in the UK, USA, Middle East and Asia. A new management team has been re-structuring the company with low margin activities sold and operations rationalised. With this re-structuring mostly completed, the company is starting to see growth in profitability and future prospects look strong. The company also enjoys a cash-rich balance sheet and is looking to deploy this on acquisitions that will augment organic growth.

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

Kenmare Resources is a mining company with a major deposit of heavy minerals, including the titanium minerals ilmenite and rutile, in Mozambique. The company has had issues with weak product pricing and power supply issues, which have affected cashflow and profitability. The Company sold its position in Kenmare early in the financial year.

Partnership Assurance is a provider of enhanced annuities. The shares have been poor performers in the year after the Government changed the requirement for consumers to purchase an annuity on retirement. This has severely affected prospects for new annuity sales. The Company has no holding in Partnership Assurance.

Kentz is an international engineering services company supplying the oil and gas and mining industries. It has grown strongly over the past few years and has a strong record for delivering contracts on time and to budget to its global customer base. It was an eventful year for Kentz with a failed bid approach from engineering rival AMEC followed by the significantly earnings-enhancing acquisition of Valerus, an oil and gas handling company. Kentz also saw its order book grow substantially after the award of several major contracts. These events led to an upwards re-rating of Kentz with a sharp jump in the share price over the year. Subsequent to the year-end Kentz received an agreed bid from SNC-Lavalin at a significant premium to the prevailing share price.

	12 month return %	Relative contribution %
Principal detractors		
Oxford Instruments	-21.5	-0.8
Anite	-27.3	-0.4
Rotork	-7.4	-0.4
Ocado*	+62.5	-0.4
Perform	-51.7	-0.4

*Included in the benchmark index up to 31 December 2013 but not owned by the Company.

Oxford Instruments produces advanced instrumentation equipment for industrial and scientific research markets. The company has high exposure to the nanotechnology area, which is an emerging area of research and is set to grow strongly in future years. The company has been substantially re-structured by its management team. It has been a significant contributor to the performance of the Company in recent years. However, the share price struggled in 2013/14 due to a number of reasons – austerity cutbacks by Western governments, weakness in demand from emerging economies and the strength of sterling. Prospects for the coming year look brighter, aided by the complementary acquisition of Andor Technology and in the longer term, the business is well positioned for superior growth.

Anite is a telecom testing software business and is a global leader in its field. The company struggled in the year after it issued a profit warning. This was caused by a downturn in sales to a number of customers who were going through corporate change and re-structuring. As software sales are high margin, the shortfall in sales led to a more significant drop in profits. Prospects for the coming years look much stronger, aided by the growth in 4G/LTE services the telecom operators are rolling out globally.

Rotork designs and manufactures actuators and related products for use in the valve industry. Its products are principally used in the oil and gas, power and water industries. It is a global leader in its industry and has consistently grown market share through high levels of product quality and client service provision. The company has a fantastic long-term track record and has consistently grown faster than its peer group. Margins are high, the balance sheet is strong, sales exposure is geared towards growing industries and emerging economies and management are high quality. The shares had a tougher year as investors fretted over Rotork's exposure to the oil and gas industry where capital expenditure is under pressure.

Ocado is an online food retailer. The company has shown strong sales growth without ever translating that into

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Fund Manager's Review

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sustainable profitability or cash flow. However the share price rose as investors bought into the long-term potential prospects of the business. The company was additionally boosted by a service and software contract with William Morrisons. The Company has no holding in Ocado.

Perform commercialises sport and entertainment rights, mostly in the online gambling and advertising markets. The company grew strongly, aided by the growth of in-play betting and a number of complementary acquisitions. However Perform issued a severe profit warning in the year as advertising markets saw unexpected weakness and costs over-ran budgeted levels. Given the suddenness of the warning, poor integration of acquisitions and the lack of control on costs, we sold our investment.

Portfolio activity

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

In the year we have added a number of new positions to our portfolio. These included:

EMIS – a market leader of software to GP surgeries through its EMIS Web product. EMIS Web allows primary, secondary and community healthcare practitioners to view and contribute to a patient's cradle-to-grave healthcare record. EMIS has expanded its operations into other areas of the healthcare market, including hospital pharmacy, A&E and mental health and community trusts. The strength of EMIS's market position and the recurring nature of its revenues ensures the company has excellent cash flow characteristics. With additional funds being allocated to healthcare IT spending, EMIS is set to grow steadily into the medium term.

Esure – a general insurer with a focus on the UK motor market. The UK motor insurance market has been through a very weak period over the last 2-3 years, with falling claims costs resulting in large decreases in premiums. The industry has reached a point at which a significant portion of underwriting is loss-making. This, we believe, is becoming unsustainable. We expect a more positive environment for motor premiums to emerge over the medium term and for Esure, with its market leading underwriting ability and attractive cost structure, to be a prime beneficiary.

UTV Media – a UK and Irish media group with interests in radio and television. The company has been enjoying a resurgence in advertising revenues driven by the improvement in the UK and Irish economies. Additionally it is well placed to benefit from the World Cup through its Talk Sport radio channel. The launch of a new commercial TV station in Eire will provide UTV with medium term growth. All these factors mean that UTV is well set to grow profitability strongly in the coming years.

Vectura – a pharmaceutical product development company focussing on broncho-pulmonary diseases which include asthma and chronic obstructive pulmonary disease. Vectura is the partner of choice for big pharmaceutical companies such as Novartis and GlaxoSmithKline which validates its technology. Our investment case centres around rapid top-line growth as royalty streams ramp up from both branded and generic products which achieved regulatory approval in 2013.

Safestore – a self-storage company which has a nationwide presence in the UK and a near monopoly in Paris. The company recently went through a period of change which included a debt refinancing and change in management. The company is benefiting from both increased demand driven by the housing market recovery and restricted supply. Additionally we have confidence that the operational improvements the new management team have implemented will increase conversion rates and earnings.

Optimal Payments – a global provider of online payment solutions. The company should benefit from structural growth in global e-commerce with a large portion of its revenues related to the online gaming industry, the company is well placed to benefit from the much-anticipated regulation and reopening of the US market.

We invested in a number of IPOs (initial public offerings) in the year. These included Servelec, a provider of software solutions to the health industry and control solutions to the oil and gas, nuclear and utilities market; Safestyle, a provider of windows and doors in the UK; Koovs, an online fashion retailer in the Indian market run by the founding management of ASOS; DX Services, a logistics and parcel distribution company; and Patisserie Holdings, a growing chain of coffee and cake shops.

To balance the additions to our portfolio we have disposed of positions in companies which we felt were set for poor price performance. We sold our holding in Premier Farnell, the electronic component distributor, where the company is sacrificing margins to maintain sales in a competitive market. We also disposed of our holding in Monitise, the mobile banking platform technology company, where profitability has

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been pushed out for a number of years through the need to re-invest in technology development. We sold our position in Kofax, the electronic capture software company, after a dual listing on NASDAQ pushed the shares up to levels where the valuation looks excessive.

We benefited from a degree of takeover activity in the year. Within our portfolio, takeover bids were received for AZ Electronics, a speciality chemicals manufacturer, from Merck; Heritage Oil, an oil and gas explorer with its main interests in Nigeria, from Middle Eastern investors; and F&C Asset Management, from Bank of Montreal.

Portfolio outlook

The following table shows the Company's key stock positions versus the Numis Smaller Companies Index (excluding investment companies) at the end of May 2014.

Top ten active positions at 31 May 2014	Holding %	Index Weight %	Active Weight %
Bellway	2.5	—	2.5
Taylor Wimpey	2.4	—	2.4
Spectris	2.4	—	2.4
Informa	2.1	—	2.1
e2v Technologies	2.2	0.2	2.0
Interserve	2.4	0.5	1.9
Victrex	1.9	—	1.9
Thomas Cook	1.8	—	1.8
Intermediate Capital	1.8	—	1.8
Howden Joinery	1.7	—	1.7

A brief description of the largest active positions follows:

Bellway is a national UK housebuilder. The UK housing market has seen an impressive recovery in the recent past, aided by improving consumer confidence, low interest rates and Government initiatives, particularly Help to Buy. Margins, volumes and profits have been rising strongly and the outlook remains for continued strong growth. Bellway is looking to exploit these conditions by expanding its national footprint, whilst maintaining a strong land bank and balance sheet. Although the housebuilders have had a more difficult time recently, as investors fret over potential interest rate rises, the sector remains well placed given the structural under-supply of housing in the UK and the capital discipline Bellway and its peers are displaying.

Taylor Wimpey is a national UK housebuilder. From the depths of the housing downturn in 2007/08, Taylor Wimpey has made an impressive recovery. It has strengthened its over-leveraged balance sheet through the sale of its US operation and by raising money through a rights issue. Financial returns have been improving through the acquisition of higher-margin land and cost reductions in the building process. Much of the

housing market commentary of Bellway also applies to Taylor Wimpey. The major difference between the two companies' strategies is that whilst Bellway is looking to expand its volumes (albeit from a much lower base), Taylor Wimpey is aiming to return significant amounts of cash, through dividends, to shareholders. This provides a very attractive prospective yield for investors.

Spectris manufactures, designs and markets products for the electronic control and process instrumentation sectors. The company has a number of subsidiaries which tend to be market leaders in global market niches. Cash generation is sound, the management team is well respected and the balance sheet is strong. Profit growth in 2013 and 2014 has been muted due to softness in end markets and sterling strength but in the longer term, the company is well positioned for growth, especially if it deploys its balance sheet on acquisitions.

Informa is a leading business-to-business information group. Its activities include the provision of academic journals, books, data services, trade exhibitions and conferences. The company produced a very resilient profit performance during the downturn, helped by aggressive cost cutting. Additionally the balance sheet has been strengthened and cash generation has been strong. A new CEO has been appointed and if he can drive growth from a collection of high-quality assets then the share price has significant scope to re-rate upwards.

Interserve is an international construction and support services group operating principally in the UK and Middle East. The principal driver of the business is currently the UK support services operation where margins have risen from depressed levels. Additionally the UK construction activities are proving resilient in the face of tough market conditions and the Middle East is benefiting from economic growth. Interserve has recently acquired Initial, the facilities management business, from Rentokil, which will boost earnings growth and bulk up the capabilities of the support services division. The valuation of Interserve remains attractive given the growth opportunities.

e2v Technologies manufactures high technology electronic components. Although e2v is a company with significant technology and high margins it has struggled to deliver consistent growth. This has led to a below market valuation for the business. There is significant pressure building on the management team to find a solution to this problem and the recent appointment of a new chairman and CEO will hopefully accelerate this process. There is significant potential for e2v to re-rate if new management deliver on their strategic plans.

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Victrex is a manufacturer of a speciality thermoplastic PEEK. It is the world leader in its field with a dominant market share. Victrex has shown consistent long-term growth as demand for PEEK has grown as customers look to replace metals with lighter plastics with similar thermal properties. This is best evidenced by the aerospace industry, where the most technologically advanced large commercial jet in the world, the Boeing 787, uses one tonne of PEEK per plane compared to minimal use in jets of a decade ago. Although demand for PEEK is subject to the vagaries of the economic cycle, in the longer term its use will continue to increase and drive Victrex's profitability upwards. Additionally Victrex has developed a very successful medical business with PEEK used particularly in spinal and arthroscopy operations, which is growing independent of the economic cycle.

Thomas Cook is a leisure travel company, which predominantly operates in the UK and Europe. The company is in its second year of its multi-year turnaround strategy, which has involved a large scale refinancing, divestment of non-core assets and operational overhaul of the business. Whilst future-proofing the business can be a painful exercise in the short-run, in the long run the business should benefit from capacity coming out of the market and rationalisation of the industry. Our investment case centres around the attractive valuation and multiple levers the company can pull to grow earnings.

Intermediate Capital is an alternative finance provider and asset manager. Intermediate Capital is a leading provider of mezzanine finance to LBO markets. It also owns a highly successful mezzanine and credit fund management operation. Its portfolio of investments are performing well, the company is looking to grow its loan book and the fund management business has an ambition to double in the next 4 years. The valuation looks very appealing, trading at a discount to net assets.

Howden Joinery is a manufacturer and retailer of kitchens in the UK. From launch in 1990 it has organically grown to over 560 branches and taken a significant market share by providing a first-class service to its client, the jobbing builder, with keen prices and excellent stock availability. The company is also very cash generative but in the past this cash has been consumed by pension and property issues it inherited from its once parent, MFI. However these issues have now been effectively worked through and Howden are starting to aggressively raise the dividend to shareholders. With branch roll-out continuing and the kitchen market beginning to recover Howden is well placed to grow profitability strongly.

Market outlook

Equity markets have performed strongly over the last year. The global macro-economic environment has been getting gradually better with world GDP forecast to show faster growth in both 2014 and 2015. This is being driven mostly from developed rather than emerging economies.

The UK economy has seen a strong recovery with a number of upgrades to economic growth over the last year. There has been a noticeable improvement in the housing market, with a rise in prices and transaction levels, aided by low interest rates and Government initiatives. The unemployment rate has fallen and there are signs that wage inflation is starting to rise, albeit modestly. All these factors are boosting consumer confidence. With the UK economy strengthening, the focus has now shifted as to the likely timing of an interest rate rise. Guidance on this matter from the Bank of England has fluctuated over the past few months but the consensus view is that we can expect the first move in late 2014 or early 2015. However, as it currently stands, rates are expected to rise slowly and to levels well below historic norms which should allow the nascent UK economic recovery to continue.

After the rise in the past few years, stock market valuations are now back to long-run historic averages. Corporate profitability has proved robust but has not shown much growth in recent years. It is difficult to see the market making material progress from current levels without an increase in corporate earnings. However, given an improving economic backdrop we are hopeful that the outlook for corporate profitability is improving somewhat. Mergers and acquisition activity is currently subdued as management teams are unwilling to take on financial leverage in the face of perceived economic uncertainty. An increase in M&A would be helpful for smaller companies in particular as mergers and acquisition activity tends to be focused in this area.

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

Neil Hermon

Fund Manager

29 August 2014

Strategic Report

Investment Portfolio

at 31 May 2014

Company	Main activity	Valuation as at 31 May 2014 £'000	% of portfolio
Bellway	house building	12,834	2.47
Taylor Wimpey	house building	12,725	2.45
Interserve	international contractor	12,468	2.40
Spectris	electronic control and process instrumentation	12,398	2.38
Paragon	buy to let mortgage provider	11,835	2.28
e2v Technologies	electronic components	11,546	2.22
Informa	business to business information	11,062	2.13
WS Atkins	engineering consultancy	10,504	2.02
Senior	aerospace and automotive products	10,367	2.00
Victrex	speciality chemicals	9,747	1.88
10 largest		115,486	22.23
Thomas Cook	travel and leisure	9,259	1.78
Intermediate Capital	mezzanine finance	9,094	1.75
Howden Joinery	kitchen manufacturer and retailer	8,940	1.72
Grainger	residential property investor	8,755	1.68
Northgate	commercial vehicle hire	8,717	1.68
Oxford Instruments	advanced instrumentation equipment	8,423	1.62
Domino Printing Sciences	industrial printing equipment	8,327	1.60
Ashtead	plant hire	7,925	1.53
Playtech	internet gaming software	7,684	1.48
Aveva Group	design software	7,389	1.42
20 largest		199,999	38.49
Rotork	process control solutions	7,158	1.38
Restaurant Group	restaurants	7,143	1.37
Kentz	oil and gas contractor	7,088	1.36
Essentra	speciality plastic producer and distribution	6,948	1.34
LSL Property Services	retail property investor	6,479	1.25
Laird	electronic products	6,457	1.24
HellermannTyton	electrical components & equipment	6,451	1.24
NMC Health	healthcare provider	6,014	1.16
Euromoney Institutional Investor	business to business information	5,897	1.13
NCC	IT security	5,874	1.13
30 largest		265,508	51.09
Ultra Electronic Holdings	specialised defence contractor	5,865	1.13
Renishaw	precision measuring and calibration equipment	5,858	1.13
Premier Oil	oil and gas exploration and production	5,808	1.12
*RWS	patent translation services	5,599	1.08
Fidessa	financial software	5,556	1.07
SIG	builders merchant	5,467	1.05
Dixons	electrical good retailer	5,335	1.03
Capital & Regional	retail property investor	5,328	1.02
Jupiter Fund Management	investment management company	5,300	1.02
Balfour Beatty	international contractor	5,284	1.02
40 largest		320,908	61.76

Strategic Report

Investment Portfolio

at 31 May 2014 continued

Company	Main activity	Valuation as at 31 May 2014 £'000	% of portfolio
Countrywide	real estate services	5,224	1.01
Hunting	oil equipment and services	5,198	1.00
Synergy Healthcare	healthcare support services	4,945	0.95
*Clinigen	pharmaceuticals	4,938	0.95
Fenner	industrial engineering	4,725	0.91
Ted Baker	clothing retailer	4,699	0.90
Tyman	building products	4,666	0.90
Afren	oil and gas production and exploration	4,425	0.85
Greene King	pub operator	4,275	0.82
Esure	motor and property insurer	4,256	0.82
50 largest		368,259	70.87
Chime Communications	media agencies	4,233	0.82
*DX Group	logistics and parcel distribution	4,153	0.80
Hays	business training and employment agencies	4,082	0.79
Spirent Communications	telecoms testing	4,048	0.78
St Modwen Properties	real estate holding and investment	3,910	0.75
Anite	telecom software	3,870	0.74
Dunelm	homewares retailer	3,843	0.74
Elementis	speciality chemicals	3,718	0.72
Tribal Group	education support services and software	3,685	0.71
CSR	semi conductors	3,677	0.71
60 largest		407,478	78.43
Spirit Pub	pub operator	3,612	0.69
ITE Group	exhibition organiser	3,568	0.69
Cineworld	cinema operator	3,481	0.67
Dechra Pharmaceuticals	veterinary pharmaceuticals	3,475	0.67
Brown (N) Group	apparel retailers	3,283	0.63
*Safestyle	window replacement retailer	3,264	0.63
John Menzies	news distributor and aviation services	3,126	0.60
Servelec	computer services	3,123	0.60
Keller	ground engineering	3,053	0.59
*WYG	engineering consultancy	2,968	0.57
70 largest		440,431	84.77
Tarsus Group	exhibition organiser	2,956	0.57
Brammer	industrial suppliers	2,912	0.56
Unite Group	student accommodation investor	2,910	0.56
Go-Ahead	bus and rail operator	2,860	0.55
*EMIS	healthcare IT services	2,855	0.55
Urban & Civic	real estate investment and services	2,841	0.55
Vectura	respiratory pharmaceuticals	2,796	0.54
Hyder Consulting	engineering consultancy	2,698	0.52
Kazakhmys	mining	2,627	0.51
Costain	contractor	2,527	0.49
80 largest		468,413	90.17

Strategic Report

Investment Portfolio

at 31 May 2014 continued

Company	Main activity	Valuation as at 31 May 2014 £'000	% of portfolio
Mecom Group	local newspaper publishing	2,510	0.48
CLS	real estate investment and services	2,475	0.48
Rathbone Brothers	private client asset management	2,473	0.47
Xaar	electronic equipment	2,405	0.46
*Optimal Payments	online money transfer service	2,362	0.45
Consort Medical	healthcare products	2,331	0.45
Qinetiq	defence products and services	2,311	0.44
Lookers	automotive retailer	2,308	0.44
UTV Media	radio and TV broadcaster	2,121	0.41
Speedy Hire	tool and plant hire	1,904	0.37
<i>90 largest</i>		491,613	94.62
RM	education software and services	1,895	0.36
*Koovs	online fashion retailer	1,872	0.36
Safestore Holdings	self storage operator	1,861	0.36
*Faroe Petroleum	oil and gas exploration and production	1,833	0.35
*LXB Retail Properties	retail property investor	1,776	0.34
Mears	business support services	1,768	0.34
McColls	convenience food retailer	1,742	0.34
Sherborne Investors	speciality finance	1,741	0.34
*Asian Plantations	palm oil plantations	1,729	0.33
*Abcam	internet retailer of antibodies	1,714	0.33
<i>100 largest</i>		509,544	98.07
*Ebiquity	media agency	1,660	0.32
Kofax	electronic capture software	1,492	0.29
*Patisserie Holdings	restaurants	1,450	0.28
*Horizon Discovery	biotechnology research services	1,255	0.24
*Plus 500	financial instrument trading	1,190	0.23
*Next Fifteen Communications	PR and media services	1,120	0.21
*Digital Barriers	digital security	1,085	0.21
*Rockhopper Exploration	oil and gas explorer	756	0.15
Total investments		519,552	100.00

There were no convertible or fixed interest securities at 31 May 2014.

*quoted on the Alternative Investment Market.

Strategic Report

Strategic Review

The Strategic Review is designed to provide information primarily about the Company's business and results for the year ended 31 May 2014. It should be read in conjunction with the Chairman's Statement, the Fund Manager's Review and the investment portfolio which together comprise the Strategic Report.

Status

The Company is an investment company as defined in section 833 of the Companies Act 2006 and operates as an investment trust in accordance with section 1158 of the Corporation Tax Act 2010 ('Section 1158'). The Company is subject to the UK Listing Authority's Listing Rules and is governed by its articles of association, amendments to which must be approved by shareholders by way of a special resolution. The Company is not a close company.

The Company has obtained approval from HMRC of its status as an investment trust under Section 1158; the Directors are of the opinion that the Company has conducted its affairs in compliance with Section 1158 since approval was granted and intends to continue to do so. The Company is liable to corporation tax on its net revenue profits but is exempt from corporation tax on capital gains if it has complied at all times with Section 1158.

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

Business Model

The business model of the Company as required by Code provision C.1.2 of the UK Corporate Governance Code is presented below.

Investment objective

The Company's investment objective is to maximise shareholders' total returns by investing mainly in smaller companies that are quoted in the United Kingdom. The strategy is to use rigorous research to identify high-quality smaller companies with strong growth potential. The benchmark is the Numis Smaller Companies Index (excluding investment companies) (previously called the Hoare Govett Smaller Companies Index). Generally, new investments are made in constituents of the benchmark index but they may continue to be held when the underlying companies grow out of the smaller companies sector. Once a portfolio company enters the FTSE 100 Index the Fund Manager has, in normal circumstances, six months to sell the position.

Investment policy

The Company's portfolio is managed within a framework of investment limits and restrictions determined by the Board,

the primary purpose of which is to spread and mitigate investment risk.

Diversification

The Company maintains a diversified portfolio, which is detailed on page 4 and pages 9 to 11. The portfolio is actively managed by the Manager, which provides regular reports on investment activity and portfolio construction to the Directors at and between Board meetings. The Company will not invest more than 5% of its total gross assets, calculated as at the time of investment (or additional investment), in any one holding. The Company will not make any investment that, calculated at the time of investment (or additional investment), would result in it holding more than 10% of an investee company's equity. The Board may give approval to the Manager to exceed these limits to as far as 10% and 20% respectively but only in exceptional circumstances.

Asset Allocation

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

Gearing

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

General

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

Principal activity

The principal activity of the Company is to pursue its objective by operating as an investment trust company. The investment trust company structure allows the shareholders, whether institutions or private investors, to access a diversified portfolio of investments that is professionally managed. The principal activity remained unchanged throughout the year ended 31 May 2014.

Strategy

Henderson Global Investors Limited was appointed to manage the Company's investments and to provide the related administrative services for the year under review.

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Strategic Review

continued

Since the year end, with effect from 22 July 2014, the Company has appointed Henderson Investment Funds Limited to act as its Alternative Investment Fund Manager. Investment management services are delegated to Henderson Global Investors Limited.

Henderson provides a specialist fund manager whose role is to pursue the Company's objective within parameters determined by the Board. These parameters reflect investment policy and the Board's assessment of the risks facing the Company, including the importance of retaining the Company's taxation status as an investment trust. As an investment company the Company invests its shareholders' funds in the securities of other companies. In addition it has the ability to borrow money (termed 'gearing') in order to increase the funds available for investment. It does this by means of both fixed borrowings (its £20 million issue of 10.5% Debenture Stock, repayable in 2016) and short term borrowings (drawn down from facilities provided by National Australia Bank with a current capacity of £40 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.

Principal risks and uncertainties

The principal risks and uncertainties facing the Company relate to the activity of investing in the shares of smaller companies that are listed (or quoted) in the United Kingdom. Although the Company invests almost entirely in securities that are quoted on recognised markets, share prices may move rapidly and it may not be possible to realise an investment at the Manager's assessment of its value. The companies in which investments are made may operate unsuccessfully, or fail entirely, such that shareholder value is lost. The Company is also exposed to the operational risk that one or more of its suppliers may not provide the required level of service. The Board considers regularly the principal risks facing the Company in order to mitigate them as far as practicable. A fuller description of the principal risks and uncertainties follows. With the assistance of the Manager, the Board has drawn up a risk matrix which identifies the key risks to the Company. These key risks fall broadly under the following categories:

Investment activity and strategy

An inappropriate investment strategy (for example, in terms of asset allocation or the level of gearing) may lead to underperformance against the Company's benchmark and the companies in its peer group; it may also result in the Company's shares trading at a wider discount to the net asset value per share. The Board manages these risks by ensuring a diversification of investments and a regular review of the extent of borrowings. The Manager operates in accordance with investment limits and restrictions determined by the

Board; these include limits on the extent to which borrowings may be used. The Board reviews its investment limits and restrictions regularly and the Manager confirms its compliance with them each month. The Manager provides the Directors with management information, including performance data and reports and shareholder analysis. The Board monitors the implementation and results of the investment process with the Fund Manager, who attends all Board meetings, and reviews regularly data that monitors risk factors in respect of the portfolio. The Board reviews investment strategy at each Board meeting.

Accounting, legal and regulatory

In order to qualify as an investment trust the Company must comply with Section 1158 of the Corporation Tax Act 2010, to which reference is made on page 12 under the heading 'Status'. A breach of section 1158 could result in the Company losing investment trust status and, as a consequence, capital gains realised within the Company's portfolio would be subject to Corporation Tax. The Section 1158 criteria are monitored by the Manager and the results are reported to the Directors at each Board meeting. The Company must comply with the provisions of the Companies Act 2006 ('the Companies Act'), and, as the Company's shares are listed for trading on the London Stock Exchange, the Company must comply with the UK Listing Authority's Listing Rules and Disclosure and Transparency Rules and the Prospectus Rules ('UKLA Rules'). A breach of the Companies Act could result in the Company and/or the Directors being fined or becoming the subject of criminal proceedings. Breach of the UKLA Rules could result in the suspension of the Company's shares which would in turn lead to a breach of Section 1158. The Board relies on its Company Secretary and its professional advisers to ensure compliance with the Companies Act and UKLA Rules.

Operational

Disruption to, or failure of, the Manager's accounting, dealing or payment systems or the Custodian's records could prevent the accurate reporting and monitoring of the Company's financial position. The Manager has contracted some of its operational functions, principally those relating to trade processing, investment administration and accounting, to BNP Paribas Securities Services. Details of how the Board monitors the services provided by the Manager and its other suppliers, and the key elements designed to provide effective internal control, are explained further in the internal control section of the Corporate Governance Statement on page 23.

Financial instruments and the management of risk

By its nature as an investment trust, the Company is exposed in varying degrees to market risk (comprising market price risk, currency risk and interest rate risk), liquidity risk and credit and counterparty risk. An analysis of these financial

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Strategic Review

continued

risks and the Company's policies for managing them are set out in note 15 on pages 51 to 55.

Management Arrangements

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

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

The management agreement between the Company and Henderson provides for the payment of a composite annual management fee, calculated as a percentage of the value of the assets under management. The management fee is calculated quarterly as a percentage of the value of the assets under management on the last day of the quarter preceding the quarter in respect of which the calculation is made. Assets under management for the purpose of calculating the management fee exclude any holdings in funds managed by Henderson. The management fee is payable quarterly in advance. During the year ended 31 May 2014 the percentage fee rate was 0.0875% per quarter (0.35% per annum) (2013: the same).

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

Any underperformance relative to the benchmark, or any unrewarded outperformance (for example as a result of a

cap), will be carried forward and set against any outperformance or underperformance respectively in subsequent years. The net amount of outperformance or underperformance carried forward is termed the Historic Amount.

A performance fee of £551,000 is payable in respect of the year ended 31 May 2014 (2013: £2.0 million). The Historic Amount carried forward at 31 May 2014 was £23,454,042 (2013: £23,454,042).

The management agreement provides for a formal review every three years of the fee arrangements with the Manager. Neither the Manager nor the Board required any changes following the review in 2011. A review will be undertaken in the latter part of 2014.

The notice period under the management agreement between Henderson and the Company is six months, the amount of any compensation payable by the Company to be pro rata to any notice given. No compensation is payable if six months' notice of termination is given. In the event that the continuation vote to be put to the Annual General Meeting every third year is not passed, no compensation will be payable on the subsequent termination of the contract.

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

Custody Arrangements

JPMorgan Chase Bank N.A. was the Company's appointed global custodian for the year under review; its fees for UK custody are offset against the management fees payable to Henderson. Under this arrangement the Company pays the Custody fee and the Manager then has this rebated via a reduction from the gross management charge. Since the year end the Company has appointed HSBC Bank plc as Custodian and Depositary for the purposes of the Alternative Investment Fund Managers Directive.

Related Party Transactions

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

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continued

Financial review

Capital

At 31 May 2014 the Company had in issue 74,701,796 ordinary shares of 25p each. The market price per share at that date was 547.0p, giving the Company a market capitalisation of £408.6 million. Total equity equalled £476.3 million, the NAV being 637.6p per share. Accordingly, the market price per share stood at a discount of 12.9% to the NAV. The Company seeks annual shareholder authority to buy back its shares in the market for cancellation. During the year the Company did not buy back any of its ordinary shares (2013: 40,000).

Performance

The Company had a strong year in terms of performance, rising substantially in absolute terms. The stock market rose over the year and, because of good stock selection, and the positive effects of gearing, the Company outperformed its benchmark on a total return basis. On a total return basis the benchmark index increased by 19.1% over the year ended 31 May 2014 (2013: 39.3%). By comparison the Company's net asset value total return was 19.9% (2013: 46.1%).

Performance attribution

	Year ended 31 May 2014	Year ended 31 May 2013
Net asset value per share total return	19.9	46.1
Benchmark total return	19.1	39.3
Relative performance	0.8	6.8
Made up:		
Stock selection	0.4	5.5
Gearing	0.9	2.4
Share buy backs	0.0	0.0
Expenses	-0.5	-1.1
	0.8	6.8

Notes:

1. The benchmark is the Numis Smaller Companies Index (excluding investment companies).
2. Source: Henderson Global Investors Limited. The table sets out the Manager's understanding of the movement, relative to the benchmark, between the net asset value per share at 31 May 2013 (540.0p) and the net asset value per share at 31 May 2014 (637.6p).

Assets

The Company's net assets increased during the year from £403 million to £476 million. The net asset value per ordinary share increased during the year from 540.0p to 637.6p. 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 £2,533,000, the management fee was £1,636,000 and other expenses totalled £443,000. These figures include VAT where applicable. A performance fee of £551,000 is payable in respect of the year ended 31 May 2014. The transaction costs, which include stamp duty and totalled £602,000, are included within the purchase costs or netted against the sales proceeds of investments.

The Ongoing Charge is a measure of the Company's running costs; details are included on page 16.

Revenue and dividend

The Company's investment income and other revenue totalled £11,171,000 (2013: £8,605,000). After deducting expenses the revenue profit for the year was £9,468,000 (2013: £4,661,000).

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

In respect of the year under review the Directors recommend a final dividend of 8.0p per ordinary share (2013: 6.5p). Subject to approval at the Annual General Meeting, the final dividend will be paid on 10 October 2014 to shareholders on the register of members on 19 September 2014.

Donations

During the year the Company made charitable donations totalling £5,000 (2013: £5,000). No political donations were made (2013: £nil).

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

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Going concern

The Company's shareholders are asked every three years to vote on the continuation of the Company as an investment trust. An ordinary resolution to this effect was put to the Annual General Meeting on 4 October 2013 and passed by a substantial majority. A similar resolution will be put to shareholders in 2016. The assets of the Company consist almost entirely of securities that are listed (or quoted on AIM) and, accordingly, the Directors believe that the Company has adequate financial resources to continue in operational existence for the foreseeable future. For these reasons, the Board has decided that it is appropriate for the financial statements to be prepared on a going concern basis. In reviewing the position as at the date of this report, the Board has considered the guidance on this matter issued by the Financial Reporting Council.

Life of the Company

The Board announced on 27 September 2002 that it proposed to introduce regular continuation votes for the Company. A continuation vote was put to the Annual General Meetings of the Company held in 2004, 2007, 2010 and 2013 and will be at every subsequent third Annual General Meeting. 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.

Future developments

The future success of the Company is dependent primarily on the performance of its investments, which will to a significant degree reflect the performance of the stock market and the Manager. Although the Company invests in companies that are listed or quoted in the United Kingdom, the underlying businesses of those companies are affected by various economic factors, many of an international nature. The Board's intention is that the Company will continue to pursue its investment objective in accordance with its investment policy. Further comment on the outlook for the Company is given in the Chairman's Statement and in the Fund Manager's Review.

Performance measurement and key performance indicators

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

Performance measured against the benchmark

The Board reviews, at each of its meetings, the performance of the portfolio, the net asset value per share ('NAV') and the

share price and compares them with the performance of the Company's benchmark. Further details on performance are contained in the Fund Manager's Review.

Performance measured against the peer group

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

	At 31 May 2014	At 31 May 2013
Performance against benchmark		
Net asset value per share	20.4%	47.4%
Ordinary share price total return	22.7%	62.4%
Numis Smaller Companies Index (excluding investment companies)	19.1%	39.3%
Performance against peer group		
UK Smaller Companies Sector (peer group)	20.5%	34.7%

Source: Morningstar, based on NAVs with debentures at fair value.

Discount to the net asset value per share

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

Ongoing charges

Ongoing charges are those expenses of a type which are likely to recur in the foreseeable future, whether charged to capital or revenue, and which relate to the operation of the investment company as a collective fund, excluding the costs of acquisition or disposal of investments, financing charges and gains or losses arising on investments. Ongoing charges are based on actual costs incurred in the year as being the best estimate of future costs. The Board reviews the ongoing charges and monitors the expenses incurred by the Company. The Company previously applied a Total Expense Ratio; under recommendation of the AIC the terminology and methodology has been changed to ensure consistency of approach and calculation across the investment company sector and UCITS

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funds. For the year ended 31 May 2014 the Ongoing Charge was 0.44% and 0.56% including performance fee (2013: 0.47% and 1.07% including performance fee).

Corporate responsibility

Responsible investment

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

Voting policy and the UK Stewardship Code

Henderson's Responsible Investment Policy sets out the approach to corporate governance and corporate responsibility for all the companies in which it invests on behalf of its clients, and its policy on proxy voting. The Policy also sets out how Henderson implements the Stewardship Code. The Company has delegated responsibility for voting to Henderson as its Manager. The Board will receive a report, at least annually, on the voting undertaken by Henderson on behalf of the Company. The Board and Henderson believe that voting at general meetings is an important aspect of corporate stewardship and a means of signalling shareholder views on board policy, practices and performance. Voting recommendations are guided by the best interests of the investee companies' shareholders. Depending on the nature of the resolution, the Fund Manager will give specific instructions on voting non-routine and unusual or controversial resolutions, after liaising with the Chairman or the full Board as appropriate. Decisions not to support

resolutions and the rationale therefore are fed back to the investee company prior to voting.

The Henderson Responsible Investment Policy and further details of Henderson's responsible investment activities can be found on the Henderson website www.henderson.com.

Employee, social, community, human rights and environmental matters

The Company has no employees and its core activities are undertaken by Henderson, which has implemented environmental management practices, including systems to limit the use of non-renewable resources and to minimise the impact of operations on the environment, and is focused on reducing greenhouse gas emissions and minimising waste, where possible. The Company has therefore not reported on these, or social, community or human rights issues.

Henderson's Corporate Responsibility Statement is included on the website www.henderson.com. For 2012 it was granted Carbon Neutral Company status which it has committed to maintain at least until the end of 2015. The Company's annual and half year reports are printed on carbon balanced paper, whereby the carbon impact of the production and distribution process has been balanced, or offset, by the World Land Trust, an international conservation charity.

Gender Representation

As set out on page 18, the Board comprises five Directors, 40% are female. The Directors' appointment to the Board was based on their skills and experience. More information on the Board's consideration of diversity is given in the Corporate Governance Statement on page 22. The Company has no employees and therefore, there is nothing further to report in respect of gender representation within the Company.

On behalf of the Board

Jamie Cayzer-Colvin

Chairman

29 August 2014

Directors



Jamie Cayzer-Colvin



Keith Percy



David Lamb



Mary Ann Sieghart



Beatrice Hollond

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

K E Percy, Keith joined the Board in 2006. He is the Company's Senior Independent Director. He is chairman of Brunner Investment Trust plc and a director of JPMorgan Japanese Investment Trust plc and Standard Life Equity Income Trust plc.

D J Lamb, David joined the Board in August 2013. He is Managing Director of St James's Place plc. He is a Chairman of the Investment Committee and a Trustee of the St. James's Place Foundation. He is also a Director of the Wealth Management Association, he is a member of the Council for the CBI (South West) and a Governor of the University of the West of England.

J J Nelson retired from the Board on 4 October 2013.

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

B Hollond, Beatrice joined the Board in July 2010 and became Chairman of the Audit Committee on 24 September 2010. She is deputy chairman of Millbank Financial Services Limited, an independent family office, and chairman of Millbank Investment Management Limited, its investment management subsidiary. She is chairman of Keystone Investment Trust plc and a director of Templeton Emerging Markets Investment Trust PLC, Catlin Group Limited and Oldfield & Co. (London) Limited. Among other appointments she is a trustee of the Esmée Fairbairn Foundation, vice-chairman of The Philanthropy Workshop (TPW) and chairman of the Investment Committee, and an advisory fellow of Pembroke College, Oxford.

All the Directors are independent and all are members of the Management Engagement Committee and the Nomination Committee. J M B Cayzer-Colvin chairs these two committees.

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

Management



Neil Hermon

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

Rachel Peat acts as the Company Secretary and is the representative of Henderson Secretarial Services Limited, the Corporate Secretary.

Report of the Directors

The Directors present the audited financial statements of the Company and their report for the year from 1 June 2013 to 31 May 2014.

The Company, registered in England & Wales, number 25526 and domiciled in the United Kingdom, was active throughout the year under review and was not dormant.

The Directors are satisfied that this Report and Financial Statements presents a fair, balanced and understandable assessment of the Company's position and prospects and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

The Directors

The Directors of the Company, as shown on page 18, are J M B Cayzer-Colvin, K E Percy, M A Sieghart, B Hollond and D J Lamb. All served throughout the year under review. J J Nelson retired from the Board with effect from the conclusion of the 2013 Annual General Meeting on 4 October 2013.

The Board has agreed that all Directors should stand for re-election on an annual basis. All Directors will offer themselves for re-election at the 2014 AGM.

No Director has, or during the financial year had, a contract of service with the Company. No director is or was materially interested in any contract subsisting during or at the end of the year that was significant in relation to the Company's business.

The Directors have reviewed their independence in the context of the UK Code of Corporate Governance and by reference to the AIC's Code of Corporate Governance. The Directors have had no material connections with Henderson at all, other than as Directors of the Company. The Board is of the opinion that each of the Directors is independent in character and judgement and that there are no relationships or circumstances that are likely to affect their judgement.

Directors' conflicts of interest

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

Directors' insurance and indemnity

Directors' and officers' liability insurance cover is in place in respect of the Directors. The Company's Articles of Association provide, subject to the provisions of UK legislation, an indemnity

out of the assets of the Company for every director or other officer of the Company against any liability which he or she may incur as a director or other officer of the Company in defending any proceedings (whether civil or criminal) in which judgement is given in his or her favour, or he or she is acquitted, or in connection with any application under the Companies Act 2006 in which he or she is granted relief by the court.

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.

Share capital

The Company's share capital comprises:

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 2014 and 31 May 2013 the number of shares in issue, and thus the number of voting rights, was 74,701,796. This represents 99.98% of the Company's share capital.

The Company's Articles of Association permit the Company to purchase its own shares and to fund such purchases from its accumulated realised capital reserves. At the Annual General Meeting in October 2013 a special resolution was passed giving the Company authority, until the conclusion of the Annual General Meeting in 2014, to make market purchases for cancellation of the Company's own ordinary shares up to a maximum of 11,197,799 shares (being 14.99% of the issued ordinary share capital as at 4 October 2013).

In the period from 31 May 2014 to 28 August 2014 the Company did not buy back any ordinary shares. There remained 11,197,799 ordinary shares available within the buy-back authority granted in 2013. A fresh buy-back authority will be sought at the Annual General Meeting in October. Shares are not bought back unless the result is an increase in the NAV per ordinary share.

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 2013 there were 4,257 preference stock units in issue. No preference stock units were bought back during the year. Therefore, at 31 May 2014 the number of preference stock units in issue was 4,257. This represents 0.02% of the Company's share capital. A fresh buy-back authority will be sought at the Annual General Meeting in October. Further details of the preference stock units are given in note 14 on page 50.

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 31 May 2014 the following had declared an interest in 3% or more of the voting rights of the Company in accordance with DTR5:

Report of the Directors

continued

Shareholder	% of voting rights
The Standard Life Investments Group	6.77
East Riding of Yorkshire Council	5.96
Lazard Asset Management LLC	5.94
1607 Capital Partners LLC	4.97
Newton Investment Management	4.94
Royal London Asset Management Limited	4.93
Prudential plc group of companies	4.17

Since the year end Lazard Asset Management LLC have notified that their voting rights have increased to 7.34%.

The Board is aware that, as at 31 May 2014, 3.67% of the issued share capital was held on behalf of participants in the Halifax Share Dealing Products (run by Halifax Share Dealing Limited ('HSDL') which is now part of Lloyds Banking Group) who transferred from the products formerly managed by Henderson Global Investors Limited ('Henderson') or who have subsequently been introduced via this system. In accordance with the arrangements made between HSDL and Henderson, these participants in the Halifax Share Dealing Products are given the opportunity to instruct the nominee company of HSDL to exercise the voting rights appertaining to their shares in respect of all general meetings of the Company. HSDL has undertaken to instruct its nominee company to exercise the voting rights of any such shares held through the Halifax Share Dealing Products that have not been exercised by the individual participants in them. It will do so by voting for or against all resolutions to be put at all general meetings of the Company (or by withholding votes on such resolutions) pro rata to the aggregate voting instructions for each resolution received from those participants who have chosen to exercise their voting rights.

Annual General Meeting

The next Annual General Meeting will be held at 10.30am on Friday 3 October 2014 at the Company's Registered Office, 201 Bishopsgate, London EC2M 3AE. The Notice of Meeting is set out in the accompanying circular to shareholders.

Amendments to Articles of Association

The Board are seeking to make certain changes to the Company's Articles of Association. A summary of the changes is set out below, full details are contained in the circular to shareholders.

The Board proposes to make amendments to the Company's Articles of Association in response to the Alternative Investment Fund Managers (AIFM) Directive coming into force. In particular, the Board proposes that the Company's Articles of Association be amended so that the Board may authorise a depositary appointed in respect of the Company on terms and conditions prescribed in the AIFM Regulations, together with any further requirements that may be prescribed by the Board, to discharge itself of liability where the Company holds assets in a country other than the United Kingdom, and the law of that country does not satisfy certain delegation requirements that are specified in the AIFM Regulations. This proposed amendment will provide the Company with commercial flexibility in terms of its investments and the Board will exercise its discretion in the usual way in determining whether or not to provide such a discharge. Certain other minor amendments to the Company's Articles of Association are also proposed to reflect the implementation of the AIFM Directive and AIFM Regulations.

In addition, there have been a number of recent changes to the UK tax laws concerning investment trusts. As a result of these new tax laws the Companies Act 2006 has been amended to remove the requirement that an investment company's articles of association must contain a prohibition on the distribution of realised capital profits, allowing such companies to pay dividends out of capital profits. In the light of these changes to UK law the Company's Articles of Association have been amended to remove such prohibition which will bring the Articles into line with the Companies Act 2006. The Board however has no current intention to pay dividends out of capital profits.

It is also proposed that the limit on the aggregate fees payable to Directors is set at £200,000 per annum. The Board considers that the level of remuneration should be sufficient to attract and retain the high calibre of directors needed to oversee the Company properly and to reflect the specific circumstances of the Company, the duties and responsibilities of the Directors and the value and amount of time committed to the Company's affairs. The Board is mindful of the requirement to refresh the Board by the appointment of new directors from time to time and considers it beneficial for there to be some overlap between retiring and new Directors. With effect from 1 October 2013 the aggregate Directors' fees run at a rate of £114,000 per annum. The Board does not expect this total to increase significantly in the near future but wishes to have sufficient headroom to accommodate changes over the medium term.

The proposed new Articles of Association will be available for inspection at the registered address of the Company during normal business hours from the Notice of AGM until the conclusion of the AGM and at the AGM at least 15 minutes prior to the start of the 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 18. Each of those Directors confirms that:

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

Global greenhouse gas emissions

As an externally managed investment trust company, the Company has no greenhouse gas emissions to report from its operations for the year to 31 May 2014 (2013: same), nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

By order of the Board

Henderson Secretarial Services Limited
Corporate Secretary
29 August 2014

Corporate Governance Statement

The Directors present the Corporate Governance Statement for the year ended 31 May 2014.

Applicable corporate governance codes

The Board is accountable to shareholders for the governance of the Company's affairs. As an investment trust, the Company's day-to-day responsibilities are delegated to third parties; the Company has no employees and the Directors are all non-executive. Thus not all the provisions of the UK Corporate Governance Code published in September 2012 ('the UK Code') issued by the FRC are directly applicable to the Company. The Board has therefore considered the principles and recommendations of the Code of Corporate Governance published by the Association of Investment Companies in February 2013 (the 'AIC Code') by reference to the AIC Corporate Governance Guide for Investment Companies (the 'AIC Guide'). The AIC Code, as explained by the AIC Guide, addresses all the applicable principles, as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company. The FRC has confirmed that by following the AIC Guide, boards of investment companies should fully meet their obligations in relation to the UK Code and paragraph 9.8.6 of the Listing Rules.

Copies of the AIC Code, the AIC Guide and the UK Code can be found on the respective organisations' websites: www.theaic.co.uk and www.frc.org.uk.

Statement of compliance

The Company is committed to high standards of corporate governance. The Board believes that the Company has complied with the recommendations of the AIC Code that are applicable to smaller companies (those below the FTSE 350) during the year under review and up to the date of this report.

The Board of Directors

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

The Board currently consists of five non-executive Directors, all of whom the Directors consider to be independent of the Company's Manager. Their biographical details, set out on page 18, demonstrate a breadth of investment, commercial and professional experience with an international perspective.

The Board meets at least five times a year and deals with the important aspects of the Company's affairs, including the setting of parameters for and the monitoring of investment strategy and the review of investment performance. The Board sets limits on the size and concentration of new investments, on any use of derivatives and on the extent to which borrowings may be used. The application of these and other restrictions, including those which govern the Company's tax status as an investment trust, are reviewed regularly at meetings of the Board. The Manager takes decisions as to the purchase and sale of individual investments and is responsible for effecting those decisions on the best available terms.

The Chairman is responsible for leading the Board and for ensuring that it continues to deal effectively with all the aspects of its role. In particular, he ensures that the Manager provides the Directors, in a timely manner, with management, regulatory and financial information that is clear, accurate and relevant. Representatives of the Manager attend each Board meeting, enabling the Directors to seek clarification on specific issues or to probe further on matters of concern. Matters specifically reserved for decision by the full Board have been defined and there is an agreed procedure for Directors, in the furtherance of their duties, to take independent professional advice, if necessary, at the Company's expense. The Directors have access to the advice and services of the corporate company secretary, through its appointed representative, who is responsible to the Board for ensuring that Board procedures are followed.

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

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

When a Director is appointed he or she is offered an 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 who serve for more than nine years are obliged to stand for re-election annually.

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

Board Evaluation

The Board's procedure in the current year for evaluating the performance of the Board, its committees and the individual Directors has been by means of questionnaire. The evaluation process is designed to show whether individual Directors continue to contribute effectively to the Board and to clarify the strengths and weaknesses of the Board's composition and processes. The Chairman takes the lead in acting on the results of the evaluation process. In respect of the Chairman, a meeting of the Directors was held under the chairmanship of the Senior Independent Director, without the Chairman present, to evaluate his performance.

The Chairman of the Company is an independent non-executive director. A Senior Independent Director, K E Percy, has been appointed. The Board considers that all the Directors have different qualities and areas of expertise on which they may lead when issues arise.

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 18. A record of the meetings held during the year is set out on page 23.

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

Audit Committee

The Audit Committee is chaired by B Hollond, the other members of which are K E Percy, M A Sieghart and D Lamb. None of the members of the Audit Committee are accountants by profession but the Board consider some of the Directors, including the Audit Committee Chairman, to have recent and relevant financial experience. D Lamb is a qualified actuary. The Report of the Audit Committee can be found on pages 25 and 26.

Management Engagement Committee

The Management Engagement Committee is responsible for the regular review of the terms of the management contract with the Manager. The Management Engagement Committee met once formally during the year. The details of the management arrangements and the Board's review of them is set out on page 14.

Nomination Committee

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

When considering succession planning, the Committee bears in mind the balance of skills, knowledge, experience and diversity existing on the Board although does not consider it appropriate to have set targets in relation to diversity. The Nomination Committee considers diversity as part of the annual performance evaluation and it is felt that there is a broad range of backgrounds, experience and gender and each Director brings different qualities to the Board and its discussions. The Nomination Committee will recommend when the recruitment of additional non-executive Directors is required to enhance the diversity on the Board. Once a decision is made to recruit additional Directors to the Board, a formal job description is drawn up. The Committee will use external agencies as and when the requirement to recruit an additional Board member becomes necessary, and did so during the year in relation to the appointment of David Lamb, when the services of Trust Associates were used.

The Committee also reviews and recommends to the Board the Directors seeking re-election. Recommendation is not automatic and will follow a process of evaluation of each

Corporate Governance Statement

continued

Director's performance and consideration of the Director's independence. The Committee also takes into account the mix of skills and experience of the current Board members. In accordance with the UK Code any Director serving for longer than six years would be subject to particularly rigorous assessment of his or her contribution.

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

Board attendance

The number of full meetings during the year of the Board and its Committees, and the attendance of individual Directors at those meetings, is shown below.

	Board	Audit Committee	Management Engagement Committee	Nomination Committee
No. of meetings	6	3	1	1
J M B Cayzer-Colvin*	6	3	1	1
J J Nelson**	1	1	1	–
K E Percy	6	3	1	1
M A Sieghart	6	3	1	1
B Hollond	6	3	1	1
D J Lamb***	5	2	–	1

All the above Directors attended the Annual General Meeting with the exception of J J Nelson

*J M B Cayzer-Colvin is not a member of the Audit Committee but has attended its meetings by invitation.

** Ceased to be a Director on 4 October 2013

***Appointed a Director 1 August 2013

Internal control

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

The Board has overall responsibility for the Company's system of internal control and for reviewing its effectiveness. The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company, in accordance with the Turnbull guidance. This process is subject to regular review by the Board and accords with the Financial Reporting Council ('FRC') guidance. The process was fully in place during the year under review and up to the date of this annual report. In addition, the Board has conducted its annual review of the effectiveness of the Company's system of internal control, covering all the

controls, including financial, operational and compliance controls and risk management systems. This review took into account points raised during the year in the Board's regular appraisal of specific areas of risk. The Board confirms that, had any significant failings or weaknesses been identified by that review, necessary actions would have been taken to remedy them. The Company's system of internal control is designed to manage rather than eliminate the risks of failure to achieve the Company's business objective and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board, assisted 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.

Accountability and audit

The Statement of Director's Responsibilities in respect of the financial statements is set out on page 27. The responsibilities of the independent Auditors are set out on pages 31 to 33. The Directors' statement that the business is a going concern is set out on page 16.

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

Corporate Governance Statement

continued

Company. The Board receives and considers regular reports from the Manager and ad hoc reports and information are supplied to the Board as required. In addition, the Chairman attends meetings of all the chairmen of the investment trust companies managed by the Manager; these meetings provide a forum to discuss industry matters and the Chairman reports on them to the Board.

HSBC Bank plc is appointed as the Company's Depositary, which provides an independent monitoring role and arranges the safe custody of the Company's assets

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

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

Share Capital

Please see the Report of the Directors on page 19.

Relations with shareholders

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

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

The Board considers that the Annual General Meeting should provide an effective forum for individual investors to communicate with the Directors. The Annual General Meeting is chaired by the Chairman of the Board. All the other Directors, including the Chairman of the Audit Committee, expect to be present. Details of the proxy votes received in respect of each resolution are made available to shareholders and are shown on the Company's website. The Fund Manager makes a presentation to the meeting. The Company has adopted a nominee share code which is set out on page 59.

By order of the Board

Henderson Secretarial Services Limited
Corporate Secretary
29 August 2014

Report of the Audit Committee

The Audit Committee is chaired by B Hollond, the other members are K E Percy, M A Sieghart and D J Lamb. J M B Cayzer-Colvin attends the Audit Committee meetings by invitation. Although none of the members of the Audit Committee are 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.

Meetings

The Audit Committee's usual programme is to meet at least three times a year: in advance of the publication of both the annual and the half year results and on at least one other occasion with an agenda that is focused on its broader responsibilities. The Company's Auditors are invited to attend meetings of the Committee on a regular basis. Representatives of Henderson and BNP Paribas Securities Services may also be invited to attend if deemed necessary by the Committee.

Role and Responsibilities

The role of the 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 formally reports to the Board, the Committee's responsibilities are set out in formal terms of reference which are reviewed at least annually. Responsibilities include, but are not limited to:

- monitoring the integrity of the financial statements of the Company, including its annual and half year reports, and any formal announcements relating to its financial performance;
- reviewing the significant financial reporting issues and judgements made in connection with the preparation of the Company's financial statements and related formal statements;
- ensuring that the information presented is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy;

- reviewing the effectiveness of the Company's internal controls and risk management systems and approving the statements made in the annual report concerning internal controls and risk management;
- monitoring and reviewing the remit and effectiveness of Henderson Global Investors' Internal Audit, Compliance and Business Risk functions in the context of its overall risk management system; and
- overseeing the relationship with the external Auditors including, but not limited to: approval of their remuneration, approval of their terms of engagement, assessing annually their independence and objectivity, including the provision of any non-audit services; satisfying itself that there are no inappropriate relationships on an annual basis (such as family, employment, investment, financial or business) between the Auditors and the Company (other than in the ordinary course of business).

Policy on Non-Audit Services

In July 2011 the Audit Committee adopted a new policy on the provision of non-audit services, in accordance with the Financial Reporting Council's Guidance on Audit Committees. The Committee has determined that the Auditors will not be engaged to provide any non-audit services where the Committee considers there to be any significant risk of their independence, objectivity and effectiveness being compromised by the provision of such services. The Committee may approve the provision of non-audit services if it considers such services to be (a) relevant to the statutory audit work; (b) more efficiently provided by the external audit firm than by a third party; and (c) at low risk of impairing the independence, objectivity and effectiveness of the audit. The Audit Committee will refer to the Board any engagement with a cost or potential cost greater than £20,000 (or the cost, excluding VAT, of the most recent annual audit if higher). All engagements for non-audit services will be determined on a case-by-case basis.

Report of the Audit Committee

continued

Audit for the year ended 31 May 2014

In relation to the Report and Financial Statements for the year ended 31 May 2014 the following significant issues were considered by the Committee:

<i>Significant issue</i>	<i>How the issue was addressed</i>
Valuation and ownership of the Company's investments	Actively traded investments are valued using stock exchange prices provided by third parties pricing vendors. Investments that are unlisted or not actively traded are valued using a variety of techniques to determine their fair value; all such valuations are carefully reviewed by both the Manager's Fair Value Pricing Committee and by the Directors. Ownership is verified by reconciliation with the Custodian's records.
Correct calculation of the performance fee	The performance fee calculation is prepared by the Administrators (BNP Paribas) and reviewed by the Manager and reviewed in depth by the Committee, all with reference to the investment management agreement.
Compliance with section 1158 of the Corporation Tax Act 2010	The Committee regularly considers the controls in place to ensure that the regulations for ensuring investment trust status are observed at all times.
Maintaining internal controls	The Committee receives regular reports on internal controls from the Manager and Administrator and has access to the relevant personnel of the Manager.
Recognition of income	Income received is accounted for in line with the Company's accounting policy (as set out on page 40) and is reviewed by the Committee at each meeting.

The Committee is satisfied that the Report and Financial Statements for the year ended 31 May 2014, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

Audit Tendering

As a Public Interest Entity listed on the London Stock Exchange, the company will in future be subject to the mandatory auditor rotation requirements of the European Union. Subject to the detailed implementation of the European requirements in the UK, this is likely to mean that the company will put the external audit out to tender at least every ten years, and change auditors at least every twenty years. The Audit Committee will, however, continue to consider annually the need to go to tender for audit quality or independence reasons.

External Audit, Review and Auditor Reappointment

During the year the Company invited tenders for the Company's audit. After full consideration of the proposals, and the Auditors' performance for the year under review, the Committee recommended to the Board that PricewaterhouseCoopers LLP continue as Auditors to the Company. Accordingly, resolutions to confirm the appointment of PricewaterhouseCoopers LLP as Auditors to the Company and to authorise the Directors to determine their remuneration will be proposed at the Annual General Meeting.

The Committee discuss the audit process with the Auditors without representatives of the Manager present and considers the effectiveness of the audit process after each audit. The Audit Committee remains satisfied with the effectiveness of the audit provided by PricewaterhouseCoopers LLP. The Committee is satisfied that the Auditors are independent of the Company. The Auditors are required to rotate partners every five years and this is the first year that the current partner has been in place.

B Hollond
Audit Committee Chairman
29 August 2014

Statement of Directors' Responsibilities

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

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRS as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Statement under DTR 4.1.12

Each of the Directors, who are listed on page 18, confirm that to the best of their knowledge:

- the financial statements, which have been prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the Strategic Report in this Annual Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

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

For and on behalf of the Board
J M B Cayzer-Colvin
Chairman
29 August 2014

Directors' Remuneration Report

Introduction

This report is submitted in accordance with Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in August 2013 ('the Regulations'). The report also meets the relevant requirements of the Companies Act 2006 ('the Act') and the Listing Rules of the Financial Conduct Authority and describes how the Board has applied the principles relating to Directors' remuneration. As required by Section 439 of the Act, an ordinary resolution to approve this report will be proposed at the Annual General Meeting on 3 October 2014. The Company's remuneration policy will be put to shareholders for approval by ordinary resolution for the first time this year under section 439A of the Act and the policy is expected to continue in force until the Annual General Meeting in 2017.

The Company's Auditors are required to report on certain information contained within this report; where information set out below has been audited it is indicated as such. All Directors are non-executive. The Company has no chief executive officer or employees; as such some of the reporting requirements contained in the Regulations are not applicable and have not been reported on, including the requirement for a future policy table and an illustrative representation of the level of remuneration that could be received by each individual director as it is believed that all relevant information is disclosed within this Report in an alternative format.

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

Remuneration Policy

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. 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 Audit Committee to be paid higher fees than the other Directors in recognition of their more onerous roles. The policy is to review the fee rates annually, although such review will not necessarily result in any change to them. The Company's Articles of Association limit the fees payable to the Directors to £150,000 per annum.

Annual Statement

As Chairman, J M B Cayzer-Colvin reports that Directors' fees were increased with effect from 1 October 2013. These increases were made after consideration of the fees paid to other investment trusts in the sector of an equivalent size and also in relation to the fees paid to directors of other Henderson managed trusts. These increases were to ensure the Directors' are properly remunerated for their services to the Company and so that the Company can remain competitive when seeking new Directors.

At the Annual General Meeting on 3 October 2014, shareholder authority is being sought to amend the Company's Articles of Association. One of the proposed amendments is to increase the aggregate level of fees payable to Directors from £150,000 to £200,000 per annum.

There have been no other major decisions on Directors' remuneration or any other changes to remuneration in the year under review.

Annual Report on Remuneration Directors' Interests (Audited)

	Ordinary shares of 25p	
	31 May 2014	31 May 2013
<i>With beneficial Interest:</i>		
J M B Cayzer-Colvin	12,000	12,000
J J Nelson*	–	45,000
K E Percy	5,980	5,980
M A Sieghart	2,782	2,546
B Hollond	5,700	5,700
D Lamb**	2,485	–

*Ceased to be a Director on 4 October 2013

** Appointed a Director on 1 August 2013

No Director had an interest in the Preference or Debenture Stock of the Company.

There have been no changes in any of the Directors' interests in shares detailed above since the year end.

Directors' Remuneration Report

continued

Directors' fees and expenses (Audited)

The fees and expenses paid to the Directors who served during the years ended 31 May 2013 and 31 May 2014 were as follows:

	Year ended 31 May 2014 Total salary and fees £	Year ended 31 May 2013 Total salary and fees £	Year ended 31 May 2014 Total expenses and taxable benefits £	Year ended 31 May 2013 Total expenses and taxable benefits £	Year ended 31 May 2014 Total £	Year ended 31 May 2013 Total £
J M B Cayzer-Colvin ⁽¹⁾	31,208	28,000	36	–	31,244	28,000
J J Nelson ⁽²⁾	7,886	18,000	–	–	7,886	18,000
K E Percy	20,375	18,000	–	54	20,375	18,054
M A Sieghart	20,375	18,000	–	564	20,375	18,564
B Hollond ⁽³⁾	24,042	21,000	–	449	24,042	21,449
D Lamb ⁽⁴⁾	17,375	–	–	–	17,375	–
TOTAL	121,261	103,000	36	1,067	121,297	104,067

Notes:

⁽¹⁾ Chairman and highest paid Director.

⁽²⁾ Ceased to be a Director on 4 October 2013.

⁽³⁾ Audit Committee Chairman.

⁽⁴⁾ Appointed a Director on 1 August 2013.

Note: The table above omits other columns because no payments of other types such as performance related pay, vesting performance related pay and pension related benefits were made.

Since 1 October 2013 the fees have increased as follows (previous rates are shown in brackets): Chairman £30,000 (£28,000) per annum, Audit Committee Chairman £24,000 (£21,000) per annum and the other Directors £20,000 (£18,000) per annum. Prior to this, fees were last increased with effect from 1 January 2010.

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

Relative importance of spend on pay

In order to show the relative importance of spend on pay, the below table sets out the total level of remuneration compared to the distributions to shareholders by way of dividend and share buybacks. There were no other significant distributions, payments or other uses of the Company's profit or cash flow deemed to assist in the understanding of the relative importance of spend on pay.

	31 May 2014 £	31 May 2013 £	Change £
Total remuneration	121,297	104,067	17,230
Ordinary dividend paid	8,217,000	4,856,000	3,361,000
Buybacks of ordinary shares	–	120,000	(120,000)

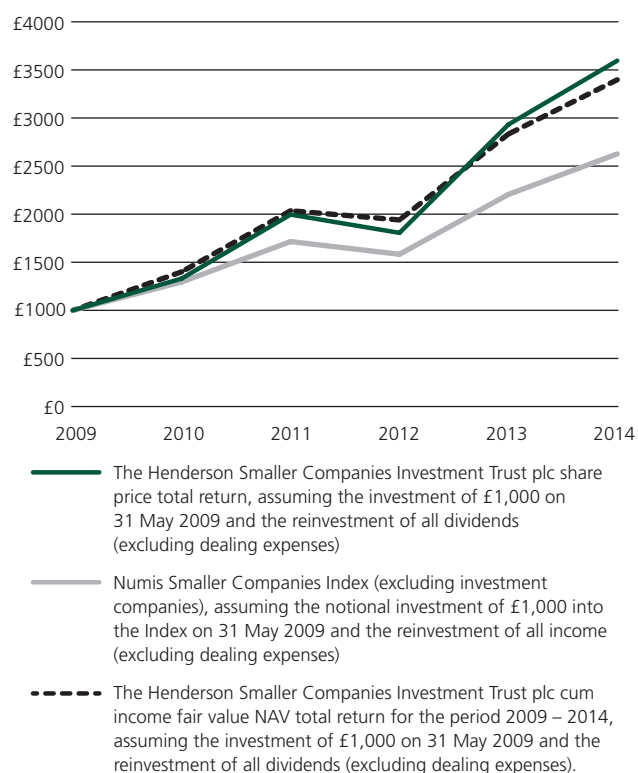
Statement of voting at Annual General Meeting

At the 2013 AGM 43,619,718 votes (99.57%) were received voting for the resolution seeking approval of the Directors' Remuneration Report, 121,149 votes (0.28%) were against, 67,276 (0.15%) were discretionary and 98,462 were withheld. The percentage of votes excludes votes withheld. This will be the first year shareholders will be asked to vote on the Company's Remuneration Policy.

Directors' Remuneration Report

continued

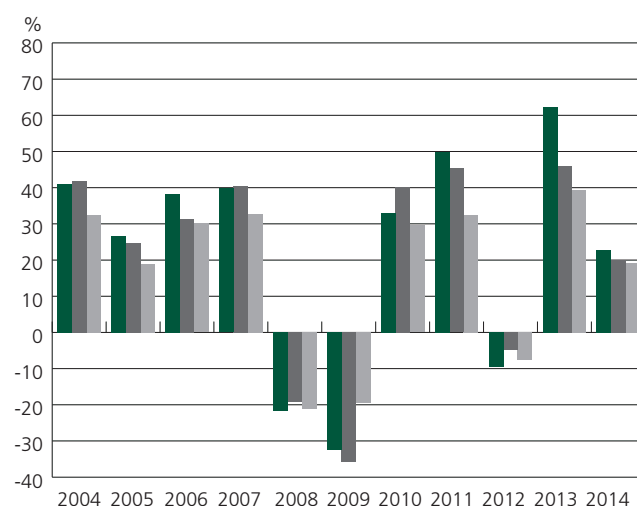
Performance Graph



Source: Datastream

The Company's performance is measured against the Numis Smaller Companies Index (excluding investment companies), the Company's benchmark.

The graph opposite, which is set out in the format required by the Act, may be more readily understood in the form of a bar chart. The bar chart below compares the performance of the Company's share price to the performance of the benchmark index in each of the eleven years up to 31 May 2014. Neil Hermon was appointed Fund Manager in November 2002.



- The Henderson Smaller Companies Investment Trust plc: share price total return for the year ended 31 May
- The Henderson Smaller Companies Investment Trust plc: cum income fair value NAV total return for the period 2009 to 2014
- The Numis Smaller Companies Index (excluding investment companies): total return for the year ended 31 May

By order of the Board

Henderson Secretarial Services Limited,
Corporate Secretary
29 August 2014

Independent Auditors' Report

to the members of The Henderson Smaller Companies Investment Trust plc

Report on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the Company's affairs as at 31 May 2014 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The financial statements, which are prepared by The Henderson Smaller Companies Investment Trust plc, comprise:

- the Balance Sheet as at 31 May 2014;
- the Statement of Comprehensive Income for the year then ended;
- the Cash Flow Statement for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

Certain disclosures required by the financial reporting framework have been presented elsewhere in the Report and Financial Statements (the "Annual Report"), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Overview of our audit approach

Materiality

We set certain thresholds for materiality. These helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole to be £4.7 million. This represents approximately 1% of net assets.

We based our materiality on 1% of net assets because we believe this provides an appropriate and consistent basis for our audit.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £238,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Overview of the scope of the audit

The Company is a standalone Investment Trust Company managed by an independent investment manager, Henderson Global Investors Limited (the 'Manager').

The financial statements, which remain the responsibility of the Directors, are prepared on their behalf by the Manager. The Manager has, with the consent of the Directors, delegated the provision of certain administrative functions to BNP Paribas Securities Services (the 'Company Administrator').

In establishing the overall approach to our audit we assessed the risks of material misstatement, taking into account the nature, likelihood and potential magnitude of any misstatement. As part of our risk assessment, we considered

Independent Auditors' Report

continued

the Company's interaction with the Manager and Company Administrator, and we assessed the control environment in place at both organisations to the extent relevant to our audit of the Company.

Following this assessment, we applied professional judgement to determine the extent of testing required over each balance in the financial statements.

Areas of particular audit focus

In our audit, we tested and examined information, using sampling and other auditing techniques, to the extent we considered necessary to provide a reasonable basis for us to draw conclusions. We obtained audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

We considered the following areas to be those that required particular focus in the current year. This is not a complete list of all risks or areas of focus identified by our audit. We discussed these areas of focus with the Audit Committee. Their report on those matters that they considered to be significant issues in relation to the financial statements is set out on page 26.

Area of focus	How the scope of our audit addressed the area of focus
<i>Valuation and existence of investments</i> We focused on this area because investments represent the principal element of the financial statements.	The investment portfolio, valued at £519,552,000, comprised listed equity investments. We tested the valuation of this investment portfolio by agreeing the valuation of investments to independent third party sources. We tested the existence of the investment portfolio by agreeing the holdings to an independent custodian confirmation.
<i>Calculation of the performance fee</i> We focused on this area because the performance fee is calculated using a complex methodology.	We independently recalculated the performance fee using the methodology set out in the Investment Management Agreement.
<i>Risk of management override of internal controls</i> ISAs (UK & Ireland) require that we consider this.	We tested journal entries to determine whether adjustments were supported by evidence and appropriately authorised. We also built an element of 'unpredictability' into our detailed testing.

Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 16, in relation to going concern. We have nothing to report having performed our review.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to prepare the Company's financial statements using the going concern basis of accounting. The going concern basis presumes that the Company has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Company's ability to continue as a going concern.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements;
- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Corporate Governance Statement set out on pages 21 to 24 in the Annual Report with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or

Independent Auditors' Report

continued

- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Companies Act 2006, we are required to report to you if, in our opinion a corporate governance statement has not been prepared by the Company. We have no exceptions to report arising from this responsibility.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with nine provisions of the UK Corporate Governance Code ("the Code"). We have nothing to report having performed our review.

On page 19 of the Annual Report, as required by the Code Provision C.1.1, the Directors state that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Company's performance, business model and strategy. On page 26, as required by C.3.8 of the Code, the Audit Committee has set out the significant issues that it considered in relation to the financial statements, and how they were addressed. Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- the statement given by the Directors is materially inconsistent with our knowledge of the Company acquired in the course of performing our audit; or
- the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have no exceptions to report arising from this responsibility.

Other information in the Annual Report

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- is otherwise misleading.

We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 27, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Jeremy Jensen (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
29 August 2014

Statement of Comprehensive Income

for the year ended 31 May 2014

		Year ended 31 May 2014			Year ended 31 May 2013		
Notes		Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
2	Investment income	11,050	–	11,050	8,447	–	8,447
3	Other income	121	–	121	158	–	158
10	Gains on investments held at fair value through profit or loss	–	73,959	73,959	–	125,057	125,057
	Total income	11,171	73,959	85,130	8,605	125,057	133,662
	Expenses						
4	Management and performance fees	(491)	(1,696)	(2,187)	(1,206)	(2,000)	(3,206)
5	Other expenses	(443)	–	(443)	(489)	–	(489)
	Profit before finance costs and taxation	10,237	72,263	82,500	6,910	123,057	129,967
6	Finance costs	(760)	(1,773)	(2,533)	(2,235)	–	(2,235)
	Profit before taxation	9,477	70,490	79,967	4,675	123,057	127,732
7	Taxation	(9)	–	(9)	(14)	–	(14)
	Net profit for the year and total comprehensive income	9,468	70,490	79,958	4,661	123,057	127,718
8	Basic and diluted earnings per ordinary share	12.67p	94.37p	107.04p	6.24p	164.72p	170.96p

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

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

Statement of Changes in Equity

for the year ended 31 May 2014

Notes	Year ended 31 May 2014				
	Called up share capital £'000	Capital redemption reserve £'000	Capital reserves £'000	Retained earnings Revenue reserve £'000	Total £'000
Total equity at 1 June 2013	18,676	26,745	347,087	10,912	403,420
Total comprehensive income:					
Profit for the year	–	–	70,490	9,468	79,958
Transactions with owners, recorded directly to equity:					
9 Ordinary dividends paid	–	–	–	(7,097)	(7,097)
Total equity at 31 May 2014	18,676	26,745	417,577	13,283	476,281

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

Balance Sheet

at 31 May 2014

Notes	2014 £'000	2013 £'000
Non current assets		
10 Investments held at fair value through profit or loss	519,552	436,659
Current assets		
12 Receivables	2,687	2,017
Tax recoverable	17	14
Cash and cash equivalents	1,154	2,595
	3,858	4,626
Total assets	523,410	441,285
Current liabilities		
13 Payables	(1,095)	(2,330)
15(v) Bank loans	(26,030)	(15,531)
	(27,125)	(17,861)
Total assets less current liabilities	496,285	423,424
Non current liabilities		
14 Financial liabilities	(20,004)	(20,004)
Net assets	476,281	403,420
Equity attributable to equity shareholders		
16 Called up share capital	18,676	18,676
17 Capital redemption reserve	26,745	26,745
Retained earnings		
17 Capital reserves	417,577	347,087
18 Revenue reserve	13,283	10,912
Total equity	476,281	403,420
19 Basic and diluted net asset value per ordinary share	637.6p	540.0p

The financial statements on pages 34 to 57 were approved by the Board of Directors on 29 August 2014 and signed on their behalf by:

J M B Cayzer-Colvin
Chairman

The notes on pages 38 to 57 form part of these financial statements.

Cash Flow Statement

for the year ended 31 May 2014

Notes	2014 £'000	2013 £'000
Operating activities		
Profit before taxation	79,967	127,732
6 Add: interest payable	2,533	2,235
Less: gains on investments held at fair value through profit or loss	(73,959)	(125,057)
Purchases of investments	(121,204)	(80,416)
Sales of investments	112,270	73,147
Decrease/(increase) in receivables	133	(42)
Increase in amounts due from brokers	(791)	(580)
(Increase)/decrease in accrued income	(12)	98
(Decrease)/increase in payables	(1,170)	2,003
(Decrease)/increase in amounts due to brokers	(102)	197
Taxation on investment income	(9)	–
Net cash outflow from operating activities before interest and taxation	(2,344)	(683)
Interest paid	(2,496)	(2,199)
Income tax	(3)	–
Net cash outflow from operating activities	(4,843)	(2,882)
Financing activities		
9 Equity dividends paid	(7,097)	(4,109)
9 Dividends unclaimed after 12 years	–	5
Buy-backs of ordinary shares	–	(120)
Drawdown of bank loans	10,499	9,431
Net cash inflow from financing activities	3,402	5,207
(Decrease)/increase in cash and cash equivalents	(1,441)	2,325
Exchange movements	–	–
Cash and cash equivalents at the start of the year	2,595	270
Cash and cash equivalents at the end of the year	1,154	2,595

The notes on pages 38 to 57 form part of these financial statements.

Notes to the Financial Statements

1 Accounting policies

(a) Basis of preparation

The Henderson Smaller Companies Investment Trust plc ('the Company') is a company incorporated and domiciled in the United Kingdom under the Companies Act 2006. The financial statements of the Company for the year ended 31 May 2014 have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. These comprise standards and interpretations approved by the International Accounting Standards Board ('IASB'), together with interpretations of the International Accounting Standards and Standing Interpretations Committee approved by the International Financial Reporting Standards Committee ('IFRSC') that remain in effect, to the extent that IFRS have been adopted by the European Union.

The financial statements have been prepared on a going concern basis and on the historical cost basis, except for the revaluation of certain financial instruments held at fair value through profit or loss. The principal accounting policies adopted are set out below. These policies have been applied consistently throughout the year. Where presentational guidance set out in the Statement of Recommended Practice ('the SORP') for investment trusts issued by the Association of Investment Companies ('the AIC') in January 2009 is consistent with the requirements of IFRS, the Directors have sought to prepare the financial statements on a basis consistent with the recommendations of the SORP.

Accounting Standards

(i) New and amended standards adopted by the Company:

- IFRS 1 (amendment), First Time Adoption of International Financial Reporting Standards – amendments resulting from the 2010 annual improvement review.
- IFRS 7 (amendment), 'Financial Instruments – Disclosures' (effective for periods beginning on or after 1 January 2013) – amendments enhancing disclosures about offsetting financial assets and financial liabilities.
- IFRS 12, 'Disclosures of interests in other entities' (effective for annual periods beginning on or after 1 January 2013) – includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.
- IFRS 13, 'Fair value measurement' (effective for annual periods beginning on or after 1 January 2013) – aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP.

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

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

Notes to the Financial Statements

continued

1 Accounting policies (continued)

- IAS 32, 'Financial instruments: Presentation' (effective for financial periods beginning on or after 1 January 2014) – updates the application guidance in IAS 32, 'Financial instruments: Presentation', to clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet.
- IAS 39, 'Financial instruments: Recognition and measurement' (effective for annual periods beginning on or after 1 January 2014) – narrow scope amendments allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met (in this context, a novation indicates that parties to a contract agree to replace their original counterparty with a new one).

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

- IFRS 1 (amendments), First Time Adoption of International Financial Reporting Standards
- IFRS 10, Consolidated financial statements
- IFRS 11, Joint Arrangements
- IAS 1 (amendment), Financial Statement Presentation
- IAS 12 (amendment), Income Taxes
- IAS 16, Property, plant and equipment
- IAS 19 (amendment), Employee Benefits
- IAS 27, Separate Financial Statements
- IAS 28, Associates and joint venture
- IAS 34, Interim reporting
- IAS 36, Impairment of assets

(b) Going concern

The Company's shareholders are asked every three years to vote for the continuation of the Company. An ordinary resolution to this effect was put to the Annual General Meeting ("AGM") held on 4 October 2013 and passed by a substantial majority of the shareholders. The assets of the Company consist almost entirely of securities that are listed (or listed on AIM) and, accordingly, the Directors believe that the Company has adequate financial resources to continue in operational existence for the foreseeable future. For these reasons, the Board has decided that it is appropriate for the financial statements to be prepared on a going concern basis.

(c) Gains/(losses) on investments held at fair value through profit or loss

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

Notes to the Financial Statements

continued

1 Accounting policies (continued)

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

(d) Presentation of the Statement of Comprehensive Income

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

(e) Income

Dividends receivable on equity shares are recognised as revenue for the year on an ex-dividend basis. Special dividends are treated as revenue return or as capital return, depending on the facts of each individual case. Interest is recognised using the effective interest rate method. Interest from debt securities is accounted for on an accruals basis.

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

Income distributions from UK Real Estate Investment Trusts (UK REITs) will be split into two parts, a Property Income Distribution (PID) made up of rental revenue and a non-PID element, consisting of non-rental revenue. The PID element is subject to corporation tax as schedule A revenue, while the non-PID element will be treated as franked revenue.

(f) Expenses

All expenses are accounted for on an accruals basis. The Board has determined that the capital return should reflect the indirect costs of earning capital returns. Since 1 June 2013, the Company has allocated 70% of its management fees and finance costs to the capital return of the Statement of Comprehensive Income with the remaining 30% being allocated to the revenue return.

All other administrative expenses are charged to the revenue return of the Statement of Comprehensive Income.

Any performance fees are charged wholly to the capital return.

Expenses which are incidental to the purchase or sale of an investment are recognised immediately in the capital return of the Statement of Comprehensive Income, and are included within the gains on investments held at fair value through profit or loss.

(g) Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

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

Notes to the Financial Statements

continued

1 Accounting policies (continued)

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Investment trusts which have approval as such under Section 1158 of the Corporation Tax Act 2010.

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

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

(h) Foreign currency

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

Transactions recorded in overseas currencies during the year are translated into sterling at the appropriate daily exchange rates. Monetary assets and liabilities and investments held at fair value through profit or loss which are denominated in overseas currencies at the balance sheet date are translated into sterling at the exchange rates ruling at that date. Gains and losses arising on the retranslation of investments held at fair value through profit or loss are included within the “Gains/(losses) on investments held at fair value through profit or loss”. Any foreign currency gains and losses are taken to capital in the Income Statement.

(i) Cash and cash equivalents

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

(j) Borrowings

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

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

1 Accounting policies (continued)

(k) Operating segments

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

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

(l) Dividends payable to shareholders

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

(m) Capital reserves

Capital reserve arising on investments sold

The following are accounted for in this reserve:

- gains and losses on the disposals of investments;
- expenses and finance costs allocated to capital net of tax relief;
- realised foreign exchange differences of a capital nature; and
- costs of repurchasing ordinary share capital.

Capital reserve arising on revaluation of investments held

The following are accounted for in this reserve:

- increases and decreases in the valuation of investments held at the year end; and
- unrealised foreign exchange differences of a capital nature.

(n) Share capital

Ordinary shares are classified as equity. Mandatorily redeemable preference shares are classified as liabilities. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where the company purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the company's equity holders.

(o) Key estimates and assumptions

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

There are no estimates and assumptions that may cause material adjustment to the carrying value of assets and liabilities as described in note 15.

Notes to the Financial Statements

continued

2	Investment income	2014 £'000	2013 £'000
	Franked income from companies listed or quoted in the United Kingdom:		
	Dividends	9,129	7,168
	Special dividends	1,079	317
	Unfranked income from companies listed or quoted in the United Kingdom:		
	Dividends	752	890
	Property income distributions	90	72
	Total investment income	11,050	8,447

3	Other income	2014 £'000	2013 £'000
	Bank interest	4	7
	Underwriting income (allocated to revenue)*	117	151
		121	158

*None of the income receivable from sub-underwriting commitments was allocated to capital during the year (2013: £nil).

4	Management and performance fees	Revenue return £'000	2014 Capital return £'000	Total £'000	Revenue return* £'000	2013 Capital return £'000	Total £'000
	Management fee	491	1,145	1,636	1,206	–	1,206
	Performance fee	–	551	551	–	2,000	2,000
		491	1,696	2,187	1,206	2,000	3,206

A summary of the management agreement is given on page 14 of the Strategic Review.

*All management fees were allocated to revenue in 2013.

Notes to the Financial Statements

continued

5	Other expenses	2014 £'000	2013 £'000
	Directors' fees and expenses (see the Directors' Remuneration Report on pages 28 to 30)	121	104
	Remuneration for the audit of the Company and the financial statements	23	24
	Auditors' remuneration for non-audit services	–	4
	Other professional fees	58	48
	FCA and London Stock Exchange fees	24	19
	Registration costs	15	16
	Annual and half year reports and shareholder circulars: printing and distribution	13	21
	Insurances	6	6
	AIC subscriptions	24	27
	Custody and other bank charges	34	24
	Bank facilities: commitment fees	56	120
	Charitable donations	5	5
	Other expenses payable to the management company*	38	28
	Share price listings in newspapers and websites	9	8
	Other expenses†	17	35
		443	489

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

†Other expenses includes VAT payable on Auditors' remuneration.

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

6	Finance costs	Revenue Return £'000	Capital Return £'000	2014 Total £'000	2013* £'000
	Bank overdraft and loan interest	130	303	433	135
	Interest on debentures	630	1,470	2,100	2,100
		760	1,773	2,533	2,235

*All finance costs were allocated to revenue in 2013.

Notes to the Financial Statements

continued

7 Taxation

(a) Analysis of charge for the year

	Revenue return £'000	2014 Capital return £'000	Total £'000	Revenue return £'000	2013 Capital return £'000	Total £'000
Overseas tax suffered	9	–	9	14	–	14
Current and total tax charge for the year	9	–	9	14	–	14

(b) Factors affecting the tax charge for the year

UK corporation tax at 22.67% (2013: 23.83%).

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

The tax assessed for the year is lower than the average standard rate of corporation tax in the UK of 22.67% (2013: 23.83%) for the year ended 31 May 2014. The standard rate of corporation tax in the UK changed from 23% to 21% with effect from 1 April 2014. Accordingly the Company's profits for this accounting period are taxed at an effective rate of 22.67%.

The differences are explained below.

	Revenue return £'000	2014 Capital return £'000	Total £'000	Revenue return £'000	2013 Capital return £'000	Total £'000
Net profit on ordinary activities before taxation	9,477	70,490	79,967	4,675	123,057	127,732
Corporation tax at 22.67% (2013: 23.83%)	2,148	15,980	18,128	1,114	29,324	30,438
Effects of:						
Non-taxable UK dividends	(2,308)	–	(2,308)	(1,784)	–	(1,784)
Non-taxable overseas dividends	(164)	–	(164)	(212)	–	(212)
Excess management expenses and loan deficits	324	786	1,110	882	477	1,359
Overseas withholding tax	9	–	9	14	–	14
Non taxable capital items	–	(16,766)	(16,766)	–	(29,801)	(29,801)
Tax charge	9	–	9	14	–	14

Notes to the Financial Statements

continued

7 Taxation (continued)

(c) Provision for deferred taxation

No provision has been made for deferred tax on income outstanding at the end of the year and this will be covered by unrelieved business charges.

Due to the Company's status as an investment trust, and the intention to continue meeting the conditions required to maintain approval of such status in the foreseeable future, the Company has not provided for deferred tax on capital gains or losses arising on the revaluation or disposal of investments.

(d) Factors that may affect future tax charges

The Company has not recognised a deferred tax asset of £12,602,000 (2013: £13,368,000) arising as a result of having unutilised management expenses and deficits on loan relationships. These expenses will only be utilised if the tax treatment of the Company's income and chargeable gains changes or if the Company's investment profile changes.

8 Earnings per ordinary share

The earnings per ordinary share figure is based on the net earnings for the year of £79,958,000 (2013: £127,718,000) and on 74,701,796 (2013: 74,705,358) 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.

	2014 £'000	2013 £'000
Net revenue profit	9,468	4,661
Net capital profit	70,490	123,057
Net total profit	79,958	127,718
Weighted average number of ordinary shares in issue during the year	74,701,796	74,705,358
	Pence	Pence
Revenue earnings per ordinary share	12.67	6.24
Capital earnings per ordinary share	94.37	164.72
Total earnings per ordinary share	107.04	170.96

Notes to the Financial Statements

continued

9	Dividends	2014 £'000	2013 £'000
	Amounts recognised as distributions to equity holders in the year:		
	Final dividend for the year ended 31 May 2013 of 6.5p (2012: 5.5p) per ordinary share	4,856	4,109
	Interim dividend for the year ended 31 May 2014 of 3.0p (2013: nil) per ordinary share	2,241	–
	Write-back of unclaimed dividends relating to prior years	–	(5)
		7,097	4,104

The final dividend of 6.5p per ordinary share in respect of the year ended 31 May 2013 was paid on 11 October 2013 to shareholders on the register of members at the close of business on 20 September 2013. The dividend paid amounted to £4,856,000 in total.

Subject to approval at the Annual General Meeting, the proposed final dividend of 8.0p per ordinary share will be paid on 10 October 2014 to shareholders on the register of members at the close of business on 19 September 2014.

The proposed final dividend for the year ended 31 May 2014 has not been included as a liability in these financial statements. Under IFRS, the final dividend is not recognised until approved by the shareholders.

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

	2014 £'000	2013 £'000
Revenue available for distribution by way of dividends for the year	9,468	4,661
Interim dividend for the year ended 31 May 2014 of 3.0p (2013: nil) per ordinary share	(2,241)	–
Proposed final dividend for the year ended 31 May 2014: 8.0p (based on the 74,701,796 shares in issue at 28 August 2014)	(5,976)	–
Final dividend for the year ended 31 May 2013: 6.5p (based on the 74,701,796 shares in issue at 29 August 2013)	–	(4,856)
Retained revenue/(shortfall) for year	1,251	(195)

In 2013, all income was distributed, the shortfall of £195,000 was transferred from revenue reserves.

Notes to the Financial Statements

continued

10	Investments held at fair value through profit or loss	2014 £'000	2013 £'000
	Cost at 1 June 2013	254,985	221,153
	Investment holding gains at 1 June 2013	181,674	83,180
	Valuation at 1 June 2013	436,659	304,333
	Movements in the year:		
	Acquisitions at cost	121,204	80,416
	Disposals at cost	(75,797)	(46,584)
	Movement in investment holding gains	37,486	98,494
	Valuation at 31 May 2014	519,552	436,659
	Cost at 31 May 2014	300,392	254,985
	Investment holding gains	219,160	181,674
	Valuation at 31 May 2014	519,552	436,659

Included in the total investments are investments that are listed on the Alternative Investment Market with an aggregate valuation of £43,580,000 (2013: £30,619,000).

Purchase and sale transaction costs for the year ended 31 May 2014 were £486,000 and £116,000 respectively (2013: transaction costs of purchases £350,000; transaction costs of sales £85,000). These comprise mainly stamp duty and commission.

Analysis of investments at fair value:

	2014 £'000	2013 £'000
Equity investments:		
Listed on London Stock Exchange	475,972	406,040
Listed on Alternative Investment Market	43,580	30,619
	519,552	436,659

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

Notes to the Financial Statements

continued

10 Investments held at fair value (continued)

	2014 £'000	2013 £'000
Total capital gains/(losses) from investments		
Gains on the sale of investments based on historical cost	36,473	27,216
Revaluation gains recognised in previous years	(25,165)	(25,703)
Gains on investments sold in the year based on the carrying value at the previous balance sheet date	11,308	1,513
Investment holding gains	62,651	123,544
	73,959	125,057

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

11 Substantial interests

The Company held interests in 3% or more of any class of share capital in four investee companies (2013: three investee companies). These investments are not considered by the Directors to be significant in the context of these financial statements.

Company	Valuation £'000	% of voting rights
e2v Technologies	11,546	3.2
Capital Regional	5,328	3.3
WYG	2,968	4.1
Koovs	1,872	5.2

12 Receivables

	2014 £'000	2013 £'000
Securities sold for future settlement	1,371	580
Prepayments and accrued income	1,316	1,437
	2,687	2,017

Notes to the Financial Statements

continued

13	Payables	2014 £'000	2013 £'000
	Securities purchased for future settlement	95	197
	Performance fee	551	2,000
	Accruals and deferred income	449	133
		1,095	2,330

14	Non current liabilities	2014 £'000	2013 £'000
	Debenture stock: redemption after more than three years:		
	10.5% Debenture Stock 2016 (redeemable at par on 31 May 2016)	20,000	20,000
	Preference stock:		
	4,257 Preference Stock units of £1 each (2013: 4,257)	4	4
		20,004	20,004

The Company may at any time purchase any of the debenture stock, in accordance with the provisions of the trust deed constituting and securing the debenture stock. However, it is not the Company's present intention to redeem the debenture stock before the final redemption date. Accordingly the debenture stock has been included in non current liabilities by reference to the final redemption date. The debenture stock is secured by way of a floating charge on all of the Company's assets. Interest on the debenture stock is payable half yearly, on 31 May and 30 November.

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

Notes to the Financial Statements

continued

15 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 15 (ii)), currency risk (see note 15 (iii)) and interest rate risk (see note 15 (iv)). The Board reviews and agrees policies for managing these risks. The Manager assesses the exposure to market risk when making each investment decision and monitors the overall level of market risk on the whole of the investment portfolio on an ongoing basis.

(ii) Market price risk

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

Management of the risk

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

The Company's exposure to changes in market prices at 31 May 2014 on its equity investments was £519,552,000 (2013: £436,659,000).

Concentration of exposure to market price risk

An analysis of the Company's investments is shown on pages 9 to 11 and a sector analysis is set out on page 4. At 31 May 2014 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 2014 is a decrease of £137,000 (2013: £382,000) and on the capital return is an increase of £129,570,000 (2013: £109,165,000). Accordingly, the total impact on shareholders' funds is an increase of £129,433,000 (2013: £108,783,000).

Notes to the Financial Statements

continued

15 Risk management policies and procedures (continued)

The impact of a 25% decrease in the value of the investments on the revenue return as at 31 May 2014 is an increase of £137,000 (2013: £382,000) and on the capital return is a decrease of £129,570,000 (2013: £109,165,000). Accordingly, the total impact is a decrease of £129,433,000 (2013: £108,783,000).

(iii) Currency risk

The Company is not itself materially exposed to currency risk, although some of the investments will be in companies that have operations that involve currency risk.

As at 31 May 2014, the Company did not hold any non-sterling denominated investments (2013: nil).

(iv) Interest rate risk

Interest rate movements may affect:

- the level of income receivable from cash at bank and on deposit; and
- the interest payable on the Company's short term borrowings.

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

Management of the risk

The possible effects on the fair value of the investments that could arise as a result of changes in interest rates are taken into account when making investment decisions and borrowing decisions. The Company rarely holds significant cash balances but finances part of its investment activity through borrowings at levels approved and monitored by the Board. The debenture stock provides long term finance at a fixed rate of interest; it was issued in 1987 to enable the Company to benefit from long term planned gearing. In addition, the Company makes use of short term borrowings. At 31 May 2014 the Company had committed bank borrowing facilities for a total of £40 million; borrowings are drawn down for short periods at rates of interest that are determined by reference to the market rates applicable at the time of borrowing.

Interest rate exposure

The Company's financial liabilities at 31 May 2014 that give exposure to fixed interest rate risk are set out in note 14.

The exposure to floating interest rates can be found on the balance sheet (cash and cash equivalents and bank loans).

These amounts are not necessarily representative of the exposure to interest rates during the year, as the level of exposure changes as investments are made, borrowings are drawn down or repaid, and the mix of borrowings subject to floating or to fixed interest rates changes.

Interest rate sensitivity

The Company is not materially exposed to changes in interest rates. As at 31 May 2014 the Company's bank facility allowed borrowings to a maximum of £40 million the interest rate exposure on which is 1.42% plus LIBOR; the interest payable on the Company's £20 million issue of Debenture Stock is fixed at 10.5%.

Notes to the Financial Statements

continued

15 Risk management policies and procedures (continued)

(v) Liquidity risk

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

Management of the risk

Liquidity risk is not significant as the majority of the Company's assets are investments in quoted equity securities that are readily realisable. The Company has borrowed £20 million by its issue in 1987 of £20 million 10.5% Debenture Stock 2016. The Company is able to draw short term borrowings of up to £40 million from its committed borrowing facility which expires on 11 February 2015 with National Australia Bank. There were borrowings of £26,030,000 drawn down under the facility at 31 May 2014 (2013: £15,531,000).

Accordingly, the Company has access to borrowings of up to £60 million: the £20 million of fixed debt represented by the issue of Debenture Stock and a committed bank facility for £40 million.

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

Liquidity risk exposure

The remaining contractual maturities of the financial liabilities at 31 May 2014, based on the earliest date on which payment can be required, was as follows:

	2014 Due within 1 year £'000	2014 Due between 1 and 5 years £'000	2013 Due within 1 year £'000	2013 Due between 1 and 5 years £'000
Debenture stock*	2,100	24,200	2,100	26,300
Preference stock†	–	–	–	–
Bank loans and interest†	26,151	–	15,531	–
Payables	1,017	–	133	–
	29,268	24,200	17,764	26,300

*The amounts due include Debenture interest.

†See also note 14 on page 50. The Company has in issue preference stock without a set redemption date with a total par value of £4,000 (2013: £4,000) which has a negligible ongoing finance cost. The bank loans in place at 31 May 2014 are to be rolled forward, together with interest.

(vi) Credit risk

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

Management of the risk

The risk is not significant, and is managed as follows:

- investment transactions are carried out with a large number of brokers, whose credit standard is reviewed regularly by the Manager, and limits are set on the amount that may be due from any one broker; and
- cash at bank is held only with reputable banks with high quality external credit ratings.

In summary, the maximum exposure to credit risk at 31 May 2014 was to cash and cash equivalents of £1,154,000 (2013: £2,595,000), to receivables of £2,687,000 (2013: £2,017,000) (see note 12).

Notes to the Financial Statements

continued

15 Risk management policies and procedures (continued)

(vii) Fair values of financial assets and financial liabilities

The investments are held at fair value through profit or loss. All the net current liabilities are held in the balance sheet at a reasonable approximation of fair value. At 31 May 2014 the fair value of the debenture stock was £22,447,000 (2013: £23,750,000). The fair value of the debenture stock is calculated using the prices quoted on the exchange on which the instrument trades. The debenture stock is carried in the balance sheet at par. At 31 May 2014 the fair value of the preference stock was £4,000 (2013: £4,000). The fair value of the preference stock is estimated using the prices quoted on the exchange on which the investment trades. The preference stock is carried in the balance sheet at par.

The debenture stock and preference shares are categorised as level 1 in the fair value hierarchy (see 15 (viii) below for definitions).

(viii) Fair value hierarchy disclosures

The table below sets out the fair value measurements using the IFRS 13 fair value hierarchy.

Categorisation within the hierarchy has been determined on the basis of the lowest level of input that is significant to the fair value measurement of the relevant asset, as follows:

Level 1: valued using quoted prices in active markets for identical assets.

Level 2: valued by reference to valuation techniques using observable inputs other than quoted prices.

Level 3: valued by reference to valuation techniques using inputs that are not based on observable market data.

The valuation techniques used by the Company are explained in note 1 (c) on page 39.

Fair value hierarchy – 2014	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equity investments	519,552	–	–	519,552

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

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

Level 3 investments at fair value through profit or loss	2014 £'000	2013 £'000
Opening balance as at 1 June	–	–
Total loss on assets held at year end	–	–
Closing balance as at 31 May	–	–

(ix) Capital management policies and procedures

The Company's capital management objectives are:

- to ensure that it will be able to continue as a going concern; and
- to secure long term capital growth for the shareholders by investment in quoted securities in the UK.

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

Notes to the Financial Statements

continued

15 Risk management policies and procedures (continued)

The Company's total capital at 31 May 2014 was £522,315,000 (2013: £438,955,000) comprising £26,030,000 (2013: £15,531,000) of unsecured bank loans, £20,000,000 (2013: £20,000,000) of debenture stock, £4,000 (2013: £4,000) of preference stock and £476,281,000 (2013: £403,420,000) of equity share capital and reserves.

At 31 May 2014 the Company had a two year revolving credit facility with National Australia Bank. The Company had drawn down £26,030,000 under these facilities as at 31 May 2014. The Company was fully compliant with the terms of the facility, as it existed, for the period from 1 June 2013 to the date of this Annual Report.

16 Called up share capital

Allotted, issued and fully paid:

74,701,796 ordinary shares of 25p each (2013: 74,701,796)

2014
£'000

2013
£'000

18,676

18,676

During the year the Company made no purchases of its own issued ordinary shares (2013: 40,000) at a total cost of £nil (2013: £120,000). Since 31 May 2014 the Company has not purchased any ordinary shares.

17 Capital redemption reserve and capital reserves

Investment holding gains at 31 May 2014 include £13,125,000 in respect of unlisted investments (2013: £8,423,000).

	Capital redemption reserve £'000	Capital reserve arising on revaluation of investments held £'000	Capital reserve arising on investments sold £'000	Capital reserves £'000
At 1 June 2013	26,745	181,021	166,066	347,087
Transfer on disposal of investments (see note 10)	–	(25,165)	25,165	–
Net capital gains for the year	–	62,651	11,308	73,959
Buy-backs of ordinary shares	–	–	–	–
Expenses charged to capital	–	–	(3,469)	(3,469)
At 31 May 2014	26,745	218,507	199,070	417,577
	Capital redemption reserve £'000	Capital reserve arising on revaluation of investments held £'000	Capital reserve arising on investments sold £'000	Capital reserves £'000
At 1 June 2012	26,735	83,180	140,970	224,150
Transfer on disposal of investments (see note 10)	–	(25,703)	25,703	–
Net capital gains for the year	–	123,544	1,513	125,057
Buy-backs of ordinary shares	10	–	(120)	(120)
Performance fee	–	–	(2,000)	(2,000)
At 31 May 2013	26,745	181,021	166,066	347,087

Notes to the Financial Statements

continued

18	Retained earnings – revenue reserve	2014 £'000	2013 £'000
	At 1 June	10,912	10,355
	Ordinary dividend paid	(7,097)	(4,109)
	Dividends unclaimed after 12 years	–	5
	Revenue profit for the year	9,468	4,661
	At 31 May	13,283	10,912

19 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 £476,281,000 (2013: £403,420,000) and on the 74,701,796 ordinary shares in issue at 31 May 2014 (2013: 74,701,796).

An alternative net asset value per ordinary share can be calculated by deducting from the total assets less current liabilities of the Company, the preference stock and the debenture stock at their market (or fair) values rather than at their par (or book) values (see note 15 (vii) on page 54). The net asset value per ordinary share at 31 May 2014 calculated on this basis was 634.3p (2013: 535.0p).

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:

	2014 £'000	2013 £'000
Net assets attributable to the ordinary shares at 1 June	403,420	279,926
Net profit for the year	79,958	127,718
Ordinary dividend paid in the year	(7,097)	(4,109)
Dividends unclaimed after 12 years	–	5
Buy-backs of ordinary shares	–	(120)
Net assets attributable to the ordinary shares at 31 May	476,281	403,420

20 Capital commitments and contingent liabilities

Capital commitments

There were no capital commitments as at 31 May 2014 (2013: £nil).

Contingent liabilities

There were no contingent liabilities in respect of sub-underwriting commitments as at 31 May 2014 (2013: £nil).

Notes to the Financial Statements

continued

21 Transactions with the Manager and related parties

Under the terms of an agreement effective from 22 July 2014 (which replaced a previous agreement in place with Henderson), the Company has appointed wholly owned subsidiaries of Henderson Group plc ('Henderson') to provide investment management, accounting, administrative and company secretarial services. Henderson has contracted with BNP Paribas Securities Services to provide accounting and investment administration services.

Details of the fee arrangements for these services are given on page 14 in the Strategic Review. The management fees payable to Henderson under this agreement in respect of the year ended 31 May 2014 were £1,636,000 (2013: £1,206,000) of which £296,000 was accrued at 31 May 2014 (2013: prepaid £133,000). VAT is no longer payable on management (including performance) fees.

The performance fee payable to Henderson in respect of the year ended 31 May 2014 is £551,000 (2013: £2,000,000).

In addition to the above services, Henderson has provided the Company with marketing services. The total fees paid or payable for these services for the year ended 31 May 2014 amounted to £38,000 (including VAT) (2013: £28,000), of which £4,000 was outstanding at 31 May 2014 (2013: £7,000).

The compensation payable to key management personnel in respect of short term employment benefits was £121,000 (2013: £103,000). In practice this disclosure relates wholly to the fees of £121,000 payable to the Directors in respect of the year (2013: £103,000); the Directors are all non-executive and receive no other compensation. The Directors' Remuneration Report on pages 28 to 30 provides details. The Company has no employees.

22 Value Added Tax on management fees

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

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

Shareholder Information

Glossary of Terms

Dividend yield

The total annual dividend expressed as a percentage of the share price.

Gearing

The gearing percentage reflects the amount of net borrowings the Company has used to invest in the market. In a falling market, the gearing effect will normally make a negative contribution to performance, whereas in a rising market it will normally make a positive contribution.

There are several methods of calculating gearing and the following has been selected: Total market value of investments less shareholders' funds as a percentage of shareholders' funds.

Investment trusts

Investment trusts are public limited companies, quoted on the London Stock Exchange, which provide shareholders with a professionally managed portfolio of investments. Investment trusts are exempt from tax on the capital gains arising on the realisation of investments. Most of the revenue, net of expenses and any tax, is distributed to shareholders as dividend.

Performance attribution analysis

Performance attribution analyses how the Company achieved its recorded performance relative to its benchmark.

This is broken down to show the effect of stock selection, gearing, expenses and changes in share capital made during the year.

Net Asset Value ('NAV') per ordinary share

The value of the Company's assets (investments and cash held) less any liabilities (including bank loans and overdraft) for which the Company is responsible, divided by the number of shares in issue. The aggregate NAV is also referred to as shareholders' funds on the Balance Sheet. The NAV per share is published daily.

Net chargeable assets

Defined as total assets less current liabilities before deducting prior charges; prior charges include any short term borrowings to be used for investment purposes.

Ongoing charges

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

Premium/discount

The amount by which the market price per share of an investment trust is either higher (premium) or lower (discount) than the NAV per share, expressed as a percentage of the NAV.

Total return

The return on the share price or net asset value per share taking into account both the rise and fall of share prices and the dividends paid to shareholders. Any dividends received by a shareholder are assumed to have been reinvested in either additional shares (for share price total return) or the Company's assets (for net asset value total return).

Warning to Shareholders

Many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas based 'brokers' who target UK shareholders offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. They can be very persistent and extremely persuasive. Shareholders are therefore advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports.

Please note that it is very unlikely that either the Company or the Company's Registrar, Computershare Investor Services PLC, would make unsolicited telephone calls to shareholders and that any such calls would relate only to official documentation already circulated to shareholders and never in respect of investment 'advice'.

If you are in any doubt about the veracity of an unsolicited phone call, please call either the Company Secretary or the Registrar at the numbers provided on page 60.

Shareholder Information

General Shareholder Information

Release of results

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

AGM

The Annual General Meeting will be held in London on 3 October 2014.

Dates of dividend and interest payments

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

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

Final dividend warrants and tax vouchers

Dividend warrants and tax vouchers for the 2014 final dividend will be posted on 8 October 2014 to shareholders on the register on 19 September 2014. The dividend will be paid on 10 October 2014, subject to approval at the AGM.

Payment of dividends

Dividends can be paid to shareholders by means of BACS; mandate forms for this purpose are available from the Registrar. Alternatively, shareholders can write to the Registrar (the address is given on page 60 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 Company's website,

www.hendersonsmallercompanies.com

Disability Act

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

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

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

Nominee share code

Where notification has been provided in advance, the Company will arrange for copies of shareholder communications to be provided to the operators of nominee accounts. Nominee investors may attend general meetings and speak at meetings when invited to do so by the Chairman.

Those who invest through the Halifax Share Dealing Products (and who were formerly participants in the Share Plan or the ISA managed by Henderson) receive all shareholder communications. A form of instruction is provided to facilitate voting at general meetings of the Company.

History

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

Shareholder Information

Directors and other Information

Directors

J M B Cayzer-Colvin (*Chairman*)
 B Hollond (*Chairman of the Audit Committee*)
 J J Nelson (*retired 4 October 2013*)
 K E Percy (*Senior Independent Director*)
 M A Sieghart
 D J Lamb (appointed 1 August 2013)

Manager

Henderson Investment Funds Limited,
 represented by Neil Hermon

Henderson Investment Funds Limited is authorised and
 regulated by the Financial Conduct Authority.

Corporate Company Secretary

Henderson Secretarial Services Limited
 represented by Rachel Peat 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

Global Intermediary Identification Number (GIIN)

W2D857.99999.SL.826

Legal Entity Identifier Number (LEI)

213800NE2NCQ67M2M998

Registrar

Computershare Investor Services PLC
 The Pavilions
 Bridgwater Road
 Bristol BS99 6ZZ
 Telephone: 0870 707 1057

The Company is a member of the AIC



Depository

HSBC Bank Plc
 8 Canada Square
 London E14 5HQ

Chartered Accountants and Statutory Auditors

PricewaterhouseCoopers LLP
 7 More London Riverside
 London SE1 2RT

Broker

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

Solicitors

Slaughter and May
 One Bunhill Row
 London EC1Y 8YY

Share Identification Codes

SEDOL: 0906506
 ISIN: GB0009065060
 EPIC: HSL

Scan the QR code or use this
 short URL to register for HGi.
<http://HGi.co/rb>



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The Henderson Smaller Companies
 Investment Trust plc is a
 premium listed company.





The Henderson Smaller Companies Investment Trust plc is managed by

Henderson

GLOBAL INVESTORS

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