TR European Growth Trust PLC

Annual Report and Financial Statements
for the year ended 30 June 2012

Policy

To invest predominantly in smaller and medium sized companies in Europe (excluding the UK).

Objective

To achieve capital growth, aiming for a net asset value total return greater than our benchmark index.

Benchmark

The return of the HSBC Smaller Europe (ex UK) Index (expressed in sterling). Prior to 1 July 2010, the benchmark was a blend of 50% of the return of the HSBC Smaller Europe (ex UK) Index and 50% of the return of the S&P/Citigroup EMI Europe (ex UK) Index.

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Dividend

Subject to shareholder approval at the AGM on 5 November 2012, a final dividend of 4.50p (2011: 3.60p) per ordinary share and a special dividend of 1.50p (2011: 0.65p) per ordinary share will be paid on 9 November 2012 to shareholders on the register on 5 October 2012. The shares will be quoted ex-dividend on 3 October 2012.

Financial Highlights

Performance	30 June 2012	30 June 2011	% Change
Net asset value ("NAV") per ordinary share	**370.19p**	522.20p	-29.1
NAV total return†			-28.1
Ordinary share price	**283.00p**	427.13p	-33.7
Share price total return†			-32.9
HSBC Smaller Europe (ex UK) Index* (benchmark)	**455.90**	618.42	-26.3
S&P/Citigroup EMI Europe (ex UK) Index*	**541.01**	705.37	-23.3
FTSE World Europe (ex UK) Index*	**636.09**	795.38	-20.0
Total (loss)/profit for the year	**(£75,149,000)**	£70,917,000	
Total (loss)/profit per share	**(148.84p)**	139.15p	

†Source: Morningstar for the AIC

*Indices expressed on a total return basis (expressed in sterling), source: Datastream

Assets	30 June 2012 £'000	30 June 2011 £'000	% Change
Total gross assets†	**204,572**	273,731	-25.3
Total net assets†	**185,006**	264,414	-30.0
Divided between:	**%**	%	
Quoted equities	**103.3**	95.1	
Unquoted equities	**6.2**	7.3	
Net current liabilities	**(9.5)**	(2.4)	
	100.0	100.0	

†After 1.3% reduction in shares in issue during the year which were bought back and cancelled at a cost of £2.1m (2011: 1.9% at a cost of £3.8m)

Revenue	30 June 2012 £'000	30 June 2011 £'000	% Change
Investment income	**4,722**	2,979	+58.5
Other income	**2**	68	-97.1
Gross revenue	**4,724**	3,047	+55.0
Net revenue after taxation	**3,481**	1,929	+80.5
Earnings per share	**6.89p**	3.79p	+81.8
Final dividend per share	**4.50p**	3.60p	
Special dividend per share	**1.50p**	0.65p	
Total dividend for the year	**6.00p**	4.25p	

Chairman's Statement

The year to 30 June 2012 was a difficult time for equity markets and I am disappointed to report that our net asset value total return per share was -28.1% and our share price total return was -32.9% as the discount widened. This compared to a total return of -26.3% for our benchmark.

The difficult market conditions were certainly unhelpful to our new manager as he set about restructuring the portfolio. However, I am pleased to report that he has made good progress in this regard and we look forward to a more normal year of activity.

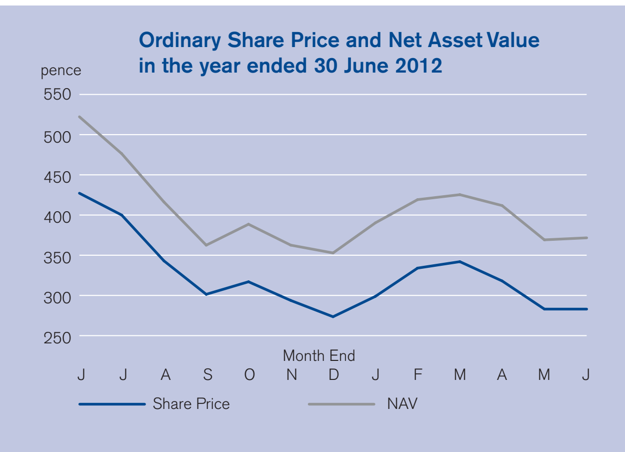
Revenue and dividends

Net earnings per share were 6.89p, a rise of 81.8%. This increase was mainly due to a higher level of investment income.

We are proposing, subject to shareholder approval at our Annual General Meeting on 5 November 2012, a final dividend per ordinary share of 4.50p, an increase of 25% over last year's final dividend of 3.60p. We are also proposing a special dividend of 1.50p per ordinary share, making a total dividend of 6.00p.

Share buy-backs

During the year, we bought back 658,332 shares for cancellation at a cost of £2.1m. The shares were all bought back at a discount to the prevailing NAV per share, thereby enhancing the NAV per ordinary share for the remaining shareholders.



The Board is committed to protecting shareholders' interests and remains prepared to use share buy backs where it believes them to be beneficial for shareholders. Shareholders will recall that as part of the Board's commitment to shareholders, a resolution for continuation of the company is put to the AGM for shareholder approval every three years, with the next vote to be held at the AGM in November 2013.

The Board

We would like to welcome Jane Tufnell to the Board. Jane joined the Board on 1 September 2012. She brings a wealth of experience in the investment management industry as a co-founder and director of Ruffer LLP. She is also a non-executive director of The Diverse Income Trust plc.

Outlook

European equity markets remain volatile as governments and central bankers continue to try to deal with the fallout from the debt and banking crises across much of the Eurozone. The interplay of domestic and international politics means that it is extremely difficult to predict the eventual outcome and hence sentiment can change extremely quickly with each communiqué and conference speech. What is clear is that there is still a large amount of debt which will need to be restructured and a great deal of asset value which will have to be written down to a more realistic level. This has to be done in order to create a stable base from which economic recovery can occur.

The process has been extremely slow, but there do seem to be some encouraging signs that at least some of the politicians now realise that they have to start taking serious action rather than simply holding summits.

However, it is important not to become disheartened by the politics. At the corporate level, this is a relatively benign environment, with interest rates likely to remain extremely low for some time. Corporate balance sheets are generally in good

Chairman's Statement
continued

health, with robust levels of cash generation. The key is to find businesses in the right niches and in a healthy financial state.

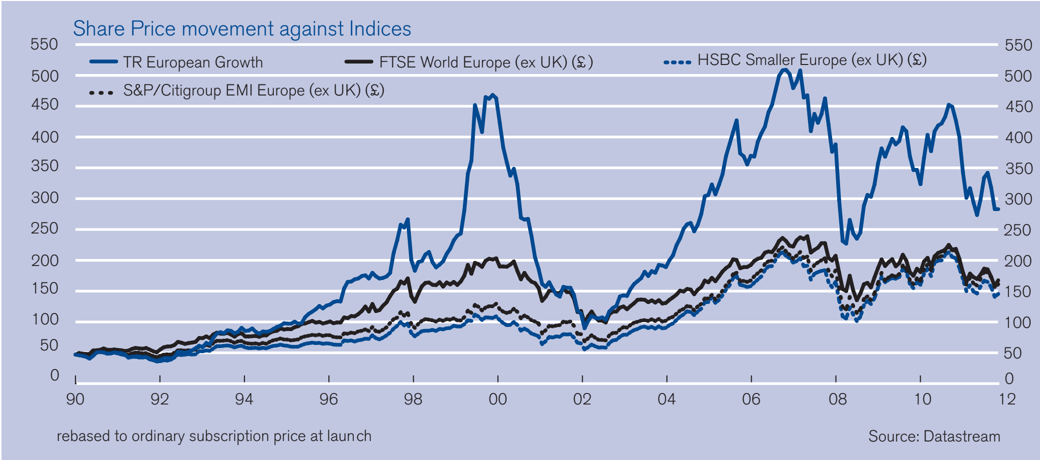
Whilst volatile markets can be emotionally difficult, what they certainly do is provide opportunities for careful investors to buy good companies at attractive prices, while shorter term investors panic over the outlook for the next week.

I feel confident that this environment should provide a fertile hunting ground for our Manager and I look forward to reporting on our progress in our half year report.

Audley Twiston-Davies
Chairman
21 September 2012

Historical Performance

TR European Growth Trust PLC commenced business on 6 September 1990



Period ended 30 June 2012	1 year %	3 years %	5 years %	10 years %	Since launch[3] %
Net Asset Value Total Return					
TR European Growth[1]	**-28.1**	**16.0**	**-31.2**	**140.5**	**834.4**
Average European Smaller Companies Investment Trust[1]	-21.7	34.4	-17.4	153.5	837.2
Average European Investment Trust[1]	-13.0	40.8	-1.1	124.7	547.5
Share Price Total Return					
TR European Growth[1]	**-32.9**	**-2.9**	**-40.6**	**124.7**	**660.9**
Average European Smaller Companies Investment Trust[1]	-23.7	25.1	-25.3	158.3	701.1
Average European Investment Trust[1]	-13.0	39.1	-5.4	116.3	481.8
HSBC Smaller Europe (ex UK) (£)[2] (benchmark)	-26.3	21.5	-19.9	152.0	473.4
S&P/Citigroup EMI Europe (ex UK) (£)[2]	-23.3	28.1	-14.1	119.8	478.6
FTSE World Europe (ex UK) (£)[2]	-20.0	20.1	-12.6	68.4	553.9
Compound Annual Growth					
Net Asset Value Total Return[1]		**5.1**	**-7.2**	**9.2**	**10.8**
Share Price Total Return[1]		**-1.0**	**-9.9**	**8.4**	**9.8**
HSBC Smaller Europe (ex UK) (£)[2]		6.7	-4.3	9.7	8.4
S&P/Citigroup EMI Europe (ex UK) (£)[2]		8.6	-3.0	8.2	8.4
FTSE World Europe (ex UK) (£)[2]		6.3	-2.7	5.3	9.0

Total return assumes net dividends are re-invested and excludes transaction costs.
Sources: [1]Morningstar for the AIC, using cum income NAV for one and three years and capital NAV plus income reinvested for all other periods. [2]Datastream; [3]Calculated from end September 1990.

Year to 30 June	2003	2004#	2005#	2006	2007	2008	2009	2010	2011	2012
Total Net Assets (£m)	241.4	343.5	294.9	365.4	460.1	331.9	215.4	199.5	264.4	**185.0**
Per Ordinary Share (pence):										
Fully Diluted NAV†	156.2	226.3	311.1	417.0	565.0	458.6	334.1	386.4	522.2	**370.2**
Net Revenue Earnings	2.50	3.57	2.92	3.10	2.92	5.39	5.79	4.31	3.79	**6.89**
Final Dividend	2.10	2.40	2.50	2.60	2.80	3.00	3.20	3.40	3.60	**4.50**
Special Dividend	–	0.50	1.50	–	–	2.00	2.30	0.85	0.65	**1.50**

#Restated for the change to IFRS in 2005. Periods prior to 30 June 2004 have not been restated for this change.
†Where dilution is applicable.

Ten Largest Investments at 30 June 2012

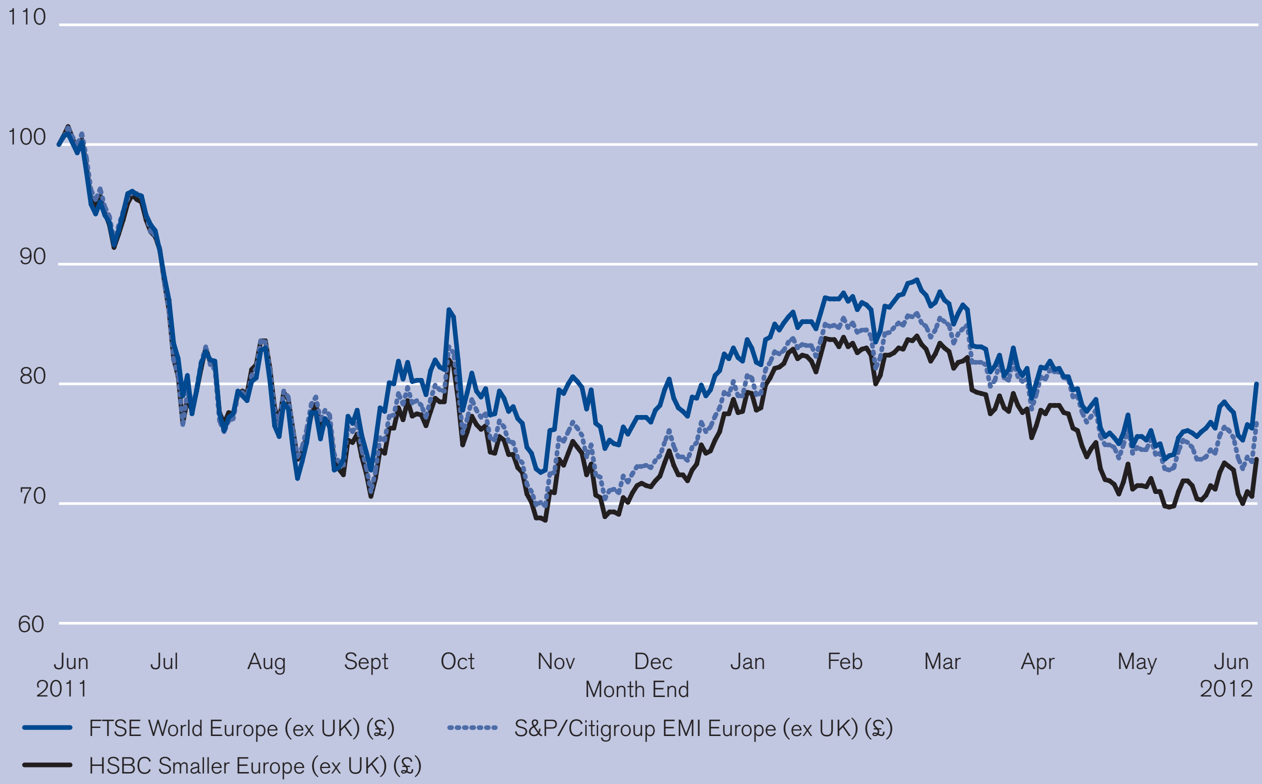
The ten largest investments (bonds and all classes of equity in any one Company being treated as one investment) were as follows:

		Value of holding 2012 (2011) £ million		% of portfolio 2012 (2011)
1	**Brainlab (Germany)**	**6.0 (7.1)**	*Radiotherapy and image-guided surgery equipment www.brainlab.com*	**2.9 (2.6)**
2	**21 Centrale Partners III (France)**	**5.2 (11.0)**	*Private equity fund in France www.21centralepartners.com*	**2.6 (4.1)**
3	**ASM International (Netherlands)**	**4.3 (3.2)**	*Semiconductor production equipment www.asm.com*	**2.1 (1.2)**
4	**Wirecard (Germany)**	**3.9 (6.6)**	*Online payment processing solutions www.wirecard.com*	**1.9 (2.4)**
5	**Azimut (Italy)**	**3.8 (3.8)**	*Italy's leading independent asset manager www.azimut.it*	**1.8 (1.4)**
6	**Inficon (Switzerland)**	**3.6 (2.9)**	*Instruments for gas analysis, measurement and control www.inficon.com*	**1.8 (1.1)**
7	**Aareal Bank (Germany)**	**3.2 (n/a)**	*Specialist property bank www.aareal-bank.com*	**1.6 (n/a)**
8	**SAF-Holland (Germany)**	**3.1 (8.9)**	*Manufacturer and supplier of systems and components for commercial vehicles www.safholland.com*	**1.5 (3.3)**
9	**Faiveley Transport (France)**	**3.0 (n/a)**	*Components and systems for trains and trams www.faiveleytransport.com*	**1.5 (n/a)**
10	**Kuoni (Switzerland)**	**3.0 (2.9)**	*Travel services www.kuoni.com*	**1.5 (1.1)**

The top ten holdings represent 19.2% (2011: 27.0%) of the portfolio.

Manager's Report
European Stock Market Performance

Movement in European Indices (rebased to 100 at 30 June 2011)



Source: Datastream

Introduction

At the start of the year the aim was to refocus the portfolio by selling the large capitalised companies and concentrating on smaller and medium sized companies with strong balance sheets and dominant market positions. The companies which had failed to perform as had been hoped would be sold.

As the chart above illustrates, the first half of the year saw healthy returns from equity markets at that time. There was a belief that the economies were continuing to improve, even if it was at a fairly muted rate. The improvement was largely being driven by emerging market growth.

However, by our year end, equity markets had refocused their attentions on the fact that there was little growth in the western world. There was also greater attention that Europe had solved none of the fundamental issues of the sovereign debt crisis and nor did they have a coherent plan to solve it.

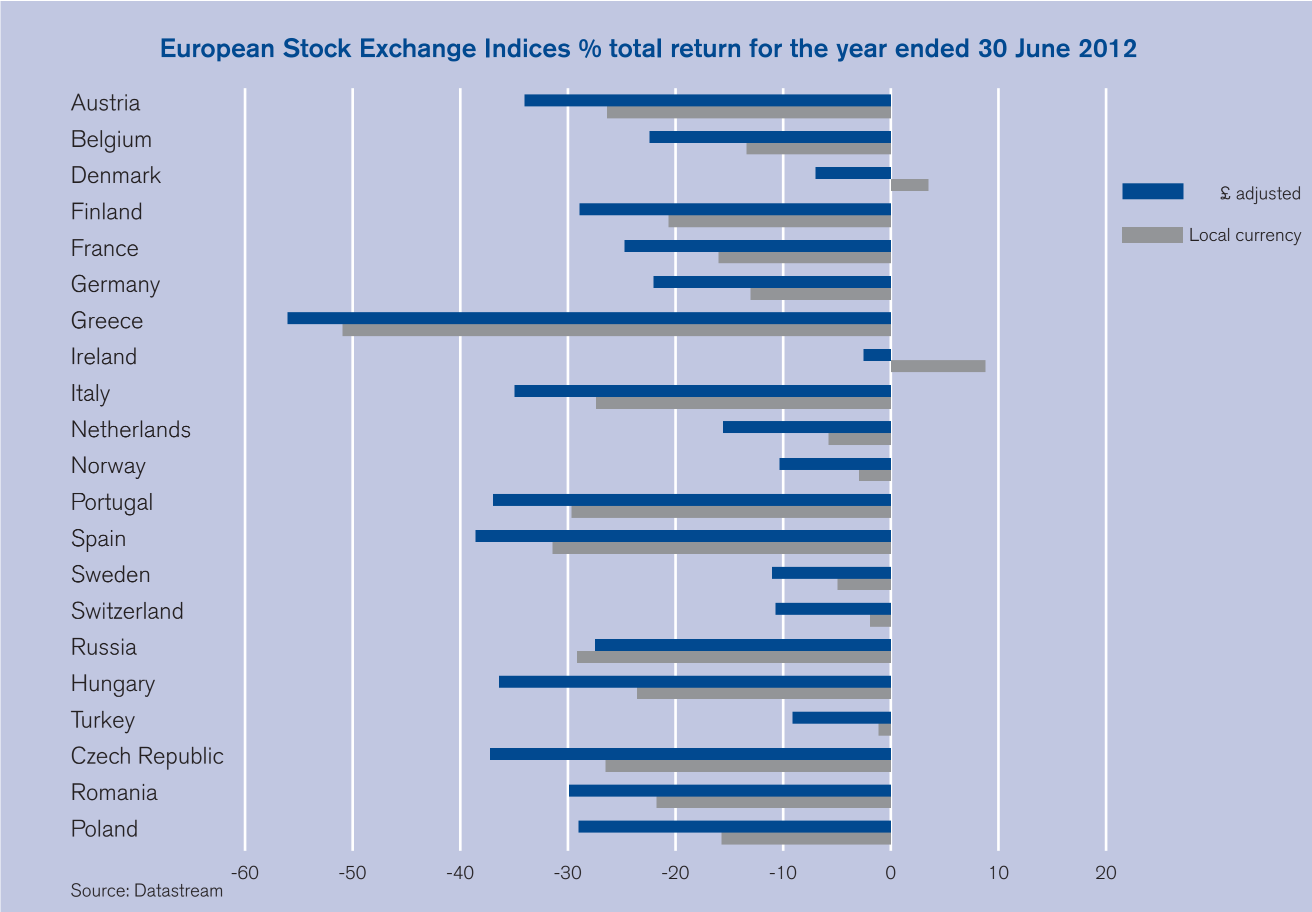
Also, the economic stimulus that China had provided earlier in the year started to dissipate as the authorities introduced tightening measures to stop their economy overheating.

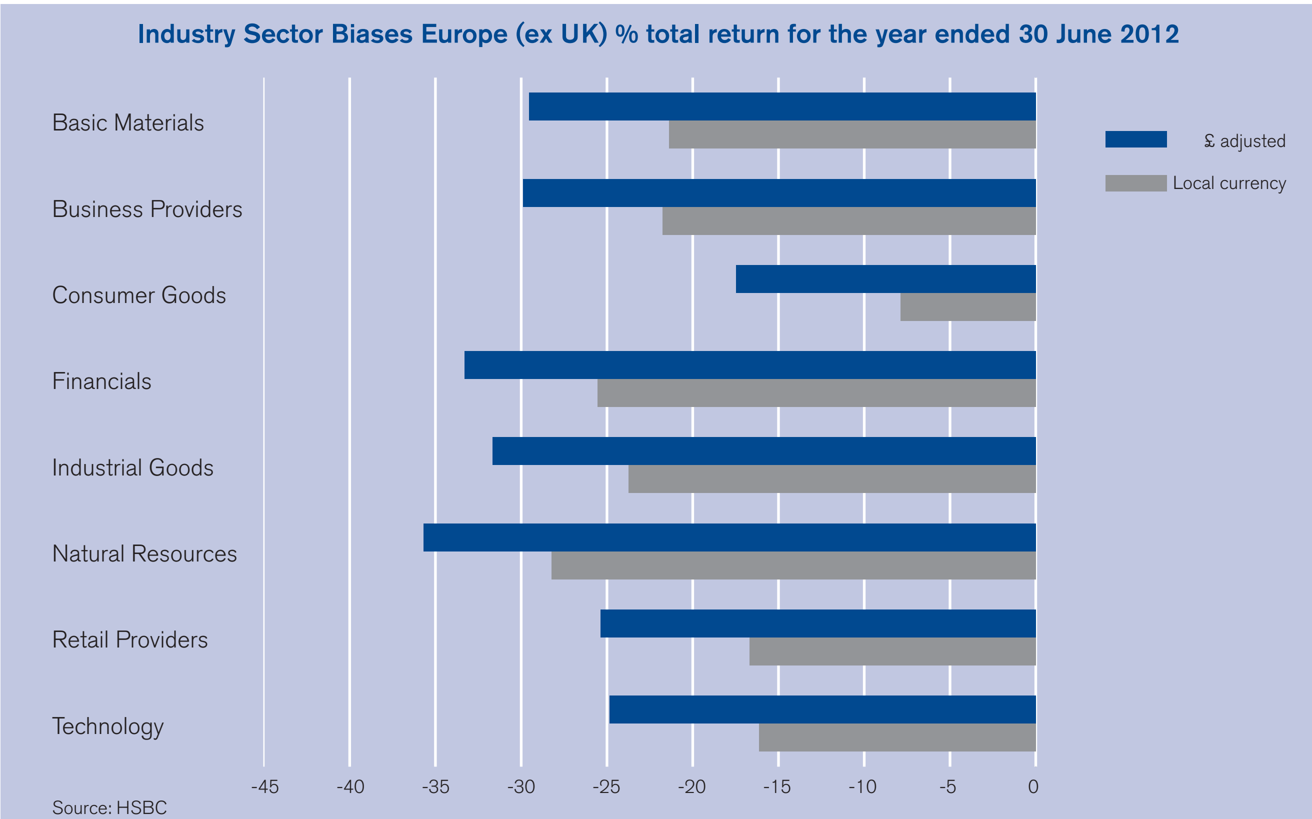
The graph opposite shows the spread of returns from the European countries. The worst performers continued to be those countries burdened by huge government debt problems.

The best performers were essentially those countries benefiting from the emerging market growth. Most prominently, this was Germany, as the developing countries moved towards increased automation and the desire of the emerging consumers to fulfil their aspirations for conspicuous consumption. Norway was another stellar performer as the oil price stayed above $85 and its currency provided a relative safe haven.

The same themes that drove country performance were witnessed in the sector performance. The export driven industrial goods and basic materials were the stand out performers. Financials remained the laggard as European banks remained burdened by European sovereign debt and a lack of clarity from a regulatory perspective.

One year on, the vast majority of the restructuring of the portfolio is now complete. There are a few micro-cap holdings of negligible importance to the listed portfolio which will take a bit longer to sell. Going forward I can


European Stock Exchange Indices % total return for the year ended 30 June 2012
Austria
Belgium
Denmark
Finland
France
Germany
Greece
Ireland
Italy
Netherlands
Norway
Portugal
Spain
Sweden
Switzerland
Russia
Hungary
Turkey
Czech Republic
Romania
Poland
-60
-50
-40
-30
-20
-10
0
10
20
£ adjusted
Local currency
Source: Datastream


Industry Sector Biases Europe (ex UK) % total return for the year ended 30 June 2012
Basic Materials
Business Providers
Consumer Goods
Financials
Industrial Goods
Natural Resources
Retail Providers
Technology
-45
-40
-35
-30
-25
-20
-15
-10
-5
0
£ adjusted
Local currency
Source: HSBC

Manager's Report

The Portfolio

Geographical distribution (% of portfolio)	30 June 2011	30 June 2012	Benchmark* 30 June 2012
Austria	5.7	**4.4**	3.2
Belgium	3.2	**3.3**	4.7
Denmark	–	**0.8**	3.2
Finland	1.8	**1.4**	5.8
France	15.0	**16.0**	12.1
Germany	27.0	**29.3**	14.6
Greece	–	**–**	2.4
Ireland	–	**2.6**	1.8
Italy	5.6	**10.7**	10.2
Luxembourg	1.3	**0.4**	–
Netherlands	3.9	**4.4**	5.6
Norway	9.1	**7.2**	6.8
Portugal	–	**–**	1.8
Spain	7.3	**2.5**	5.8
Sweden	2.7	**3.8**	10.2
Switzerland	14.8	**12.6**	11.8
Turkey	1.5	**–**	–
Ukraine	0.7	**0.4**	–
Other	0.4	**0.2**	–
	100.0	**100.0**	100.0

*Source: Factset

Sector distribution (% of portfolio)	30 June 2011	30 June 2012	Benchmark* 30 June 2012
Basic Materials	12.1	**10.2**	10.3
Business Providers	19.4	**12.9**	19.9
Consumer Goods	15.8	**11.4**	15.4
Financials	21.4	**12.2**	22.1
Industrial Goods	13.0	**18.0**	13.7
Natural Resources	3.8	**5.2**	3.5
Retail Providers	6.9	**10.1**	6.2
Technology	7.6	**20.0**	8.9
	100.0	**100.0**	100.0

*Source: Factset

and will justifiably take full responsibility for the performance of the portfolio.

The portfolio has seen a further increase in the number of holdings. This largely reflects a desire to improve the liquidity of the portfolio. We wish to continue buying companies with a market capitalisation below €400m as the valuations are very attractive. The uncertainty in the market has caused many investors to abandon this smaller end of the market, presenting great opportunities. This is part of the core strategy of the fund. However, the individual weight of each stock has to be limited given prudent liquidity constraints.

Generally, we will put greater emphasis on portfolio construction taking into account what is an appropriate weighting for a stock and how the portfolio as a whole is positioned for various scenarios.

Geographical and sector distribution

As ever, the portfolio is constructed through a process of stock selection, i.e. investing in specific companies. This can and has resulted in country and sector weightings that differ widely from the benchmark. However, we are still cognizant of how the portfolio is positioned. This has been very relevant in what has been a primarily macro driven market.

Geographically we remain heavily overweight in Germany. It is a market where we continue to find good companies on reasonable valuations. Given our large exposure, it is an area we will continue to monitor closely. The most significant change in our country exposure is in Italy where we have been underweight for many years. The widening of Italian bond yields last summer caused a largely indiscriminate sell off in the Italian equity market. This allowed us to pick up some good quality companies such as **Sorin**, the medical equipment company and **Amplifon**, the hearing aid retailer, at attractive prices and move to an overweight position.

From a sector perspective we remain heavily underweight in financials. It is an area where we have found it difficult to find assets we feel comfortable owning. A notable exception is **Aareal Bank**, a German property loan specialist which we added to the portfolio. It is a reassuringly conservative bank which continues to prosper as its competition flounders. In the last year, we have become significantly overweight in the technology sector, an area which tends to be a good source of

Manager's Report

continued

Investment activity during the year to 30 June 2012	Value at 30 June 2011 £'000	Purchases £'000	Sales £'000	Change in valuation £'000	Value at 30 June 2012 £'000
Austria	15,367	1,978	6,939	(1,597)	**8,809**
Belgium	8,565	3,731	1,355	(4,350)	**6,591**
Denmark	–	2,420	61	(694)	**1,665**
Finland	4,842	3,747	3,936	(1,787)	**2,866**
France	40,497	23,581	14,862	(16,732)	**32,484**
Germany	73,218	25,840	19,238	(20,474)	**59,346**
Ireland	–	6,299	161	(841)	**5,297**
Italy	15,269	15,410	8,716	(311)	**21,652**
Luxembourg	3,491	224	1,217	(1,634)	**864**
Netherlands	10,502	7,947	8,780	(819)	**8,850**
Norway	24,709	7,315	8,383	(9,035)	**14,606**
Spain	19,898	5,364	13,874	(6,314)	**5,074**
Sweden	7,174	3,315	1,891	(888)	**7,710**
Switzerland	40,150	10,418	13,917	(11,039)	**25,612**
Turkey	4,125	–	3,117	(1,008)	**–**
Ukraine	1,900	–	458	(623)	**819**
Other	1,093	137	40	(892)	**298**
Total portfolio	270,800	117,726	106,945	(79,038)	**202,543**

future growth with continued innovation. New holdings in this space include **Suess Microtec**, the German semiconductor equipment company. Their kit is used after the chips have been created on the silicon wafer process. They have developed exciting new technology that bonds multiple wafers into 3D integrated chips. This enables the chips to hold more information and power in a smaller space. Another new technology holding is **LPKF Laser & Electronics**. It is a global leader in laser based systems for the prototyping, cutting and manufacture of printed circuit boards (PCB) with some exciting new technologies allowing PCB miniaturisation.

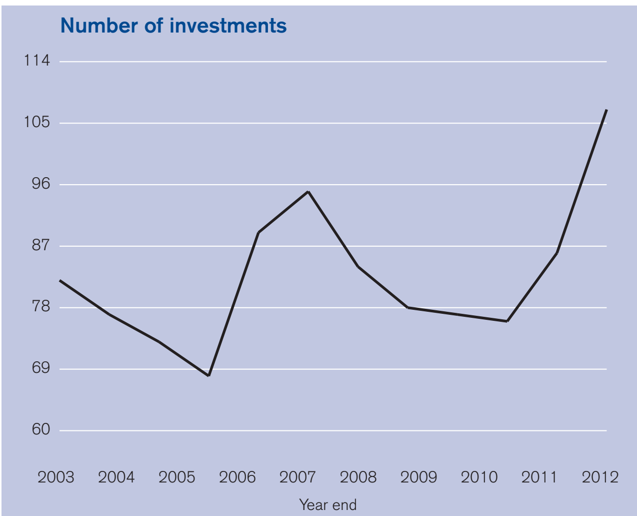
Other activity in the last year involved a reduction in our Basic Materials weighting as well as the Business Providers and Consumer Goods sectors. Each contains a highly varied group of stocks operating in many industries.

Purchases

During the last year we have added a number of stocks which will benefit when the economic recovery finally arrives. Their strong balance sheets mean they should not get into difficulty whilst we wait.

Within this theme we have added **Nexity**, the French property developer. The company is exposed to both residential and commercial property markets. Clearly, neither of these markets are currently strong. However, the company has net cash (more cash than debt) and is taking market share. It paid a large dividend last year and is likely to do the same again this year. At some point, the Hollande government is very likely to introduce property incentives to try and stimulate the market. At the very least they will introduce incentives for social housing.

The Company has initiated a position in **Stolt-Nielsen**, a company whose primary focus is the transportation of bulk chemicals globally. Currently volumes are predictably weak. However, their competition is suffering far more as



they do not have Stolt-Nielsen's relatively strong balance sheet. The stock is also underpinned by a healthy dividend of approximately 6%.

We added **De'Longhi**, the Italian electronic household equipment manufacturer. The company is seeing strong growth, especially in the sales of coffee machines. This calendar year the company has de-merged its ventilation and air-conditioning business called **Delclima**. Therefore, the latter has also become a small holding in the portfolio where the valuation is very attractive. Most recently, De'Longhi has added the powerful Braun brand to its portfolio alongside the group name and Kenwood. Both these holdings pay attractive dividends.

Pandora, the world's largest manufacturer of jewellery and charm bracelets entered the portfolio. We see this as an attractive restructuring story. It is not without risk but the low valuation makes this a risk worth taking. The company will refocus on the low/mid price points of the silver jewellery market. This was behind the company's original success before its predictably overpriced IPO.

Faiveley Transport, the French rail equipment company has been added to the portfolio. Our market timing was not great as the company has suffered due to budgetary constraints in Europe and delays in China. However, more recently the Chinese purse strings have been released and the company is seeing its order book recover. The group is a global leader in providing equipment such as air conditioning units, pantographs and access doors. We are hopeful this will be a good long term core holding.

We will also continue to look at the lower end of the market capitalisation scale. We have added the relatively small Norwegian and Swedish housebuilder **BWG Homes** and **Q-Free** the supplier of intelligent transport and toll collection systems. We believe both are attractively valued with good growth prospects.

We participated in the IPO of a company called **Inside Secure**. Although we held only a small amount it has been extremely disappointing for which I apologise. They are the producer of near field communication chips, an area with massive potential particularly in mobile payment. We continue to hold the position for the time being in the expectation of contract announcements.

The failure of Inside Secure has not been in isolation as the few IPOs that have been completed over the year have generally been poor. It is our view that the system is effectively broken as there is no longer any trust between potential investors and investment banks. The latter have shown little regard for how the stock trades after flotation. With their corporate clients they have continued to seek unrealistic prices. The equity market is an important source of capital for growing companies and a flourishing economy. It is therefore important for this issue to be resolved. Also, it is clearly a problem for the private equity industry as IPOs are a common way for them to exit their investments. We will approach any new issues with a great deal of caution.

Disposals

To finance the repositioning, a number of stocks have been sold. Some stocks have been disposed of purely on valuation grounds. **Grifols**, the Spanish manufacturer of blood plasma was sold after a period of strong performance post its acquisition of US competitor Talecris. **Aalberts**, the Dutch diversified industrial was sold as we believed that the valuation was up with events.

A couple of companies were sold as we were not comfortable with their corporate governance. These included **Morpol**, the fish processing company based in Poland. There has been a succession of Chief Financial Officers and non-executive directors that are reasons for concern. It was a similar situation at **Lifewatch**, the developer of Telemedicine systems.

Selçuk, the Turkish pharmaceutical drug distributor was sold partly due to declining gross margins, regulatory concerns and the desire to focus the fund on "core" European markets. Other stocks were sold as we believed there to be more attractive business models elsewhere. These included **Ponsse**, in forestry

Portfolio ranked by size of holding as at 30 June 2012	Market value £'000	% of the portfolio
Rank		
1-10	38,949	19.2
11-20	26,670	13.2
21-30	23,441	11.6
31-40	22,168	10.9
41-50	20,140	9.9
51-60	18,135	9.0
61-70	16,505	8.1
71-80	14,405	7.1
81-90	10,655	5.3
91-100	8,255	4.1
101-107	3,220	1.6
	202,543	**100.0**

machinery, **Nordic Mines** the gold exploration company and **Elica**, the Italian manufacturer of cooker hoods.

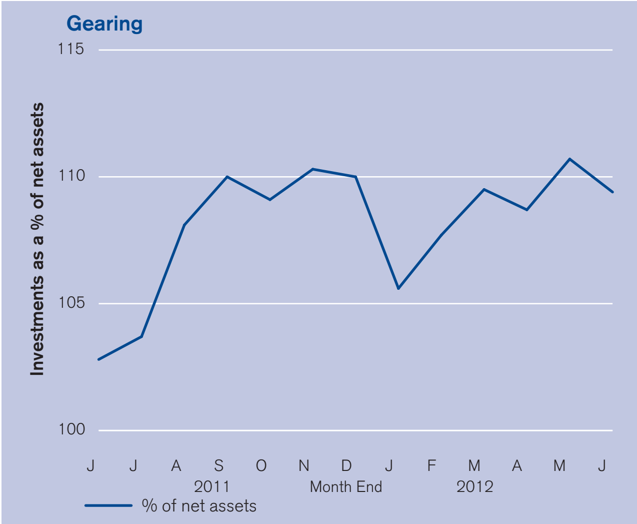
We sold our position in **Technicolor**, which manufactures set-top boxes, distributes DVDs and has a patent portfolio. There are undoubtedly some gems in their portfolio of assets but there is far too much residue for our taste.

We sold our long term position in **OHL**. This family led company decided to exchange most of their attractive Latin American concession assets for a stake in the Spanish holding company Abertis. This was probably done as succession planning by the mature Chairman. However, owning a stake in a holding company whose main asset is another holding company is not hugely attractive.

We sold our position in **Wavin**, the Dutch plastic pipe producer post a bid from Mexichem, a chemical producer from Mexico. We would be hopeful that the portfolio will benefit from more mergers and acquisitions in the future if and when the European political situation stabilises.

Gearing

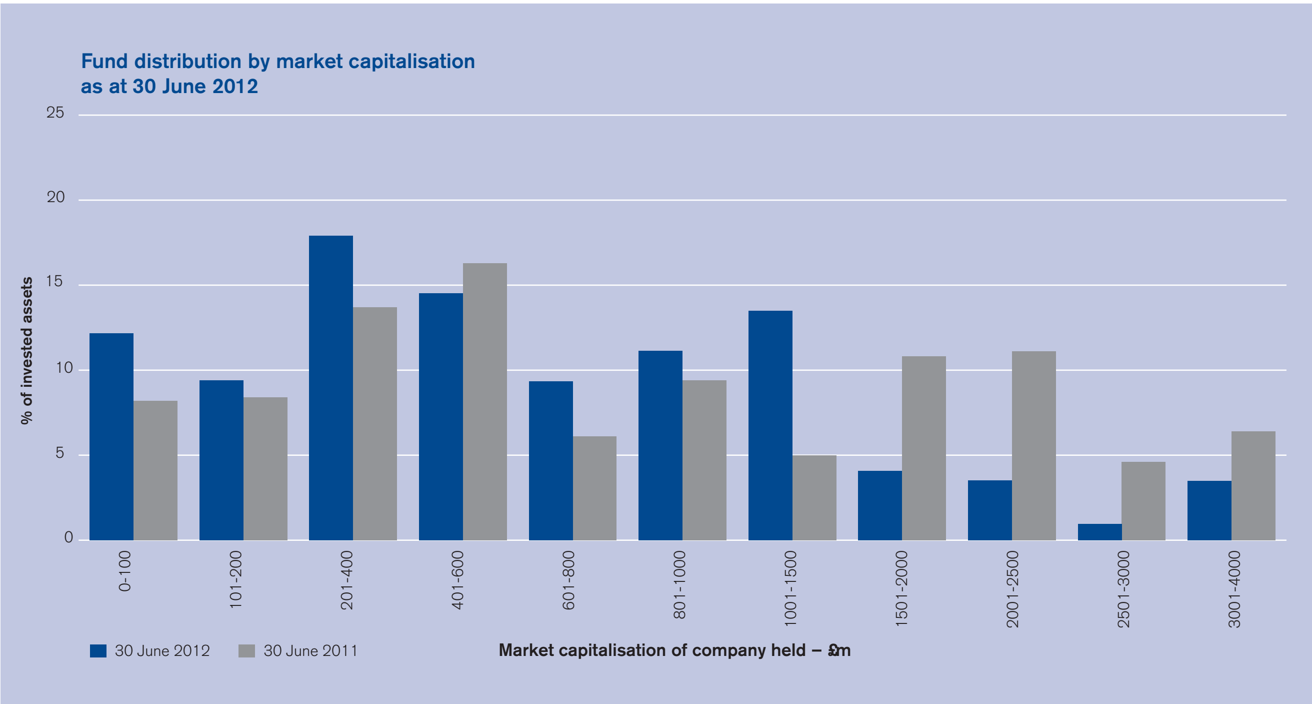
As the chart shows, we have increased our level of gearing slightly through the year. Our approach to borrowing remains that we favour the use of short term gearing, when appropriate, rather than any structural element. Our use of gearing is to ensure flexibility of action, allowing us to respond to opportunities immediately rather than having to first raise money by selling part of the portfolio.



Market capitalisation range

As the chart shows, we have continued to focus the portfolio towards smaller and medium sized companies. The weighted average market capitalisation as at 30 June 2012 was £759m, as compared to £1,102m at 30 June 2011.

The largest company in the portfolio (by market capitalisation) was Andritz, the Austrian process engineering group with a market capitalisation of £3,402m and the smallest was Dietswell, the French oil services company with a market capitalisation of £6m.



Unquoted Investments

The Company continues to have the three legacy unquoted holdings. **Brainlab** is a global leading company in software for high precision radiotherapy and image guided surgery. This is a good asset for which we will continue to seek a decent, fair price. We are also invested in the French private equity fund, **21 Centrale Partners III**. This is now in payback mode and will gradually decline in importance for the Company. These are good quality assets, however, going forward, we will not be seeking unquoted opportunities.

Unquoted investments as at 30 June 2012	Value £'000	% of the portfolio
Brainlab	5,972	2.9
21 Centrale Partners III	5,169	2.6
Doughty Hanson & Co. Fund III	298	0.2
	11,439	**5.7**

Performance Attribution

The negative performance in the last financial year has been accentuated by currency movements with the weakness of the Euro versus sterling. It is important to reiterate that the portfolio is generally unhedged.

The Company did put one successful currency hedge on during the year when in July it went short in the Swiss franc and long in sterling. This was designed to hedge the fact that we were significantly overweight in Swiss stocks. This was a successful trade as soon after its initiation the Swiss National Bank pegged its currency to the Euro and therefore fell versus the Pound.

At the stock level, successful positions have tended to come in the "high quality" structural growth area. **Salvatore Ferragamo**, the Italian luxury clothing retailer, has made a very positive contribution. The brand has been rejuvenated and they are gaining increasing traction in Asia. **Ingenico**, the payment terminal company has been another key performer as it takes market share in the US and sees increasing penetration of chip-and-pin in emerging markets. The battle ground going forward will be over mobile payments where it is far from clear who the victors will be.

A beneficiary of mobile payments is likely to be **Wirecard**, the online payment processing company which has had another successful year as they continue to benefit from the structural growth in online retail.

Sorin, the Italian medical equipment company focusing on treatment of cardiovascular illnesses has made a significant contribution. This holding is an example of where an indiscriminate sell off, in this case of Italian stocks last summer, can create an opportunity. It is also a stock which has benefited from takeover speculation. The latter being a theme which should be helpful to smaller companies if and when the Eurozone issues stabilise.

ASM International, the Dutch semiconductor equipment company has also been beneficial to performance. The management is now actively looking to address the valuation anomaly which leaves their holding in ASM Pacific, listed in Hong Kong, worth substantially more than ASM International as a whole.

The largest negative contributors have come in the area of natural resources. **Northland Resources**, the iron ore development company, has been appalling. As is often the case in this space budgets overran and extra capital was required. Clearly we should have sold this position but currently we believe the risk/reward scenario is favourable. It at least has its assets in the politically safe Scandinavia which is rare for these types of company. **Nyrstar**, the zinc processing and mining company has also been very weak, largely with the decline of the underlying commodity as China has slowed.

SAF-Holland, the German manufacturer of components for trucks and trailers has been very disappointing due to the slowdown in Europe. We still believe this company offers significant upside potential. However, our position size was inappropriate for a relatively small market capitalisation stock.

After making a positive contribution last year, **OHL**, the Spanish construction and concessions company, has been very weak. This is largely due to selling some of its Latin American concession assets to Abertis, a Spanish holding company, in exchange for a stake in Abertis. As stated previously, we have sold our holding.

Other disappointing positions have been illiquid, legacy holdings such as **STS Group**, the French security and authentication software company and **Cafom**, the retailer of furniture in the French Territories. Fortunately, these holdings are becoming less significant to the portfolio as a whole.

Portfolio positioning

Over the last year, we have increased the "quality" of the portfolio by adding companies that have substantially generated higher returns and sold companies that have failed to do so. Since purchase, a number of these "high quality" stocks have performed very well and are starting to trade on relatively rich valuations. Therefore we have trimmed such positions in some of these stocks, such as **Ingenico** and **Carl Zeiss Meditec**, the ophthalmic equipment company. However, we continue to see them as "core" long term holdings for the medium term.

As mentioned previously, the portfolio is now heavily skewed towards stocks where we believe we are "paid to wait". These are stocks which are cyclical yet have strong balance sheets and whilst we wait for a recovery will pay healthy dividends. Stocks that fit this category include the previously mentioned **Nexity**, the French property developer, **Irish Continental Group**, the ferry operator, **Tessenderlo**, the Belgian chemical company and **Inficon** the Swiss vacuum component and instrumentation company. When the recovery starts the "paid to wait" strategy should really reap the benefits.

The portfolio is also invested in a number of companies that are seeing the economic downturn as an "opportunity". These include companies which are making acquisitions for future growth. **Tomra**, the manufacturer of reverse vending machines for bottles continues to expand in scanning/process technologies. They have recently increased their presence in the growth industry of food scanning through acquisition to add to their dominant position in scanning of recyclable waste. **Wirecard**, the German online payment processing company has done a number of acquisitions to increase its presence in Asia. Other companies have used the slowdown to increase investment in organic growth. **United Internet**, the German telecommunications company has invested in its "DIY" web site business and its mobile virtual network operator division. **Pescanova**, the Spanish wild catch and fish farming business has invested heavily in prawn and turbot farming. Companies such as these should reap the benefits in years to come. Some companies, such as **Nexity** and property loans specialist **Aareal Bank** will emerge from the current environment stronger as their competitors have fallen by the way side.

Outlook

Whilst we think that the fund is well positioned for the future, performance in the last financial year has been disappointing. The vast majority of the damage was done in one week at the start of August 2011 as the Eurozone crisis came to a head. With hindsight, we were slow in repositioning the portfolio. Since last autumn, the Company's underlying performance has been improving.

The last twelve months has been dominated by the Eurozone crisis and a slowing global economy. Will the Eurozone Debt Crisis ever end? The Eurozone nations continue to act in their perceived self interest. The problem remains that the main protagonists come from different starting points, dictated by their own readings of history. Germany pushes for greater federalism on their terms. France signed up for Europe to preserve its own global importance which its economy no longer justifies. The Periphery signed up to share in German prosperity but is now looking at a decade of austerity. Europe needs to reach a point where the individual states realise that it is in their self interest to make significant compromises.

There are reasons for optimism. There is a determination that the Euro must survive and that the ECB at least will "do all that it takes"; with the conditionality of fiscal repair being top of the agenda to placate the Germans. There has also been a belated realisation of the need to break the link between bankrupt banks and bankrupt sovereigns. Ultimately for success, there will have to be an acceptance of the principle of shared debt by the Germans and dilution of sovereignty by everybody else. Clearly democracy will need to be ignored but that is another subject. Whatever the outcome, Germany pays, but it is in their self interest for the Euro to survive.

Outside of Europe there are macro economic uncertainties. The US will have to address its own fiscal deficit, whoever wins the upcoming Presidential election. China remains key to the global markets. There is clearly a need to redress its economy towards domestic consumption and away from a dependence on exports. I am no expert on China but until there is clear evidence to the contrary I will take the positive view that a country with a large budget surplus has many more policy options than the west. Clearly a soft landing in China would be very beneficial for a large number of European exporters and this is not priced into European stock markets.

We expect to see a long drawn out recovery and have positioned the portfolio accordingly. The priority on taking over the portfolio was to strengthen the core adding "high quality" structural growth companies. This has proven to be a successful strategy that with hindsight we should have done far more aggressively on taking over the fund.

A major aim in the year ahead will be to reduce the NAV discount on which the Company currently trades. We have significantly ramped up our marketing and communication efforts with investors. When Europe comes back into favour and if we deliver decent investment performance, I am very hopeful that the discount will narrow.

We are confident in how the Company is positioned and believe that the worst is now behind us with respect to the European debt crisis. Valuations of European smaller companies are very attractive. We believe the portfolio is very well positioned for a recovery. There is hope.

Ollie Beckett
21 September 2012

List of Investments as at 30 June 2012

	Valuation £'000	% of total portfolio
Austria		
AMAG Austria Metal	1,426	
Andritz	1,694	
Lenzing	1,929	
Schoeller-Bleckmann	2,735	
Zumtobel	1,025	
	8,809	**4.4**
Belgium		
D'ieteren	2,281	
EVS Broadcast Equipment	2,615	
Nyrstar	1,695	
	6,591	**3.3**
Denmark		
Pandora	1,665	
	1,665	**0.8**
Finland		
Cargotec	1,757	
Outotec	1,109	
	2,866	**1.4**
France		
* 21 Centrale Partners III	5,169	
Altran	2,377	
Batla Minerals	699	
Bull	1,034	
Cafom	600	
CFI	1,497	
Dietswell	493	
Eiffage	2,075	
Faiveley Transport	2,987	
Haulotte	1,176	
Hi-Media	1,715	
Ingenico	2,062	
Inside Secure	431	
Medica	2,135	
Naturex	1,738	
Nexity	2,296	
Parrot	1,117	
Rubis	2,258	
STS Group	625	
	32,484	**16.0**

	Valuation £'000	% of total portfolio
Germany		
Aareal Bank	3,150	
Aixtron	1,317	
Aurelius	1,560	
Axel Springer	1,919	
Bauer	2,201	
Bechtle	1,569	
* Brainlab	5,972	
Carl Zeiss Meditec	2,544	
Centrotherm Photovoltaics	384	
Gerresheimer	1,695	
Kinghero	866	
Krones	2,428	
KSB	1,594	
LPKF Laser & Electronics	1,418	
Manz	957	
Norma	2,240	
Powerland	890	
Rib Software	1,598	
SAF-Holland	3,141	
SHW	2,191	
Sky Deutschland	1,530	
SNP Schneider-Neureuther & partner	909	
Stratec Biomedical	2,286	
Stroer Out-of-Home Media	1,267	
Suess Microtec	2,017	
Tom Tailor	2,936	
United Internet	2,257	
Uzin Utz	2,606	
Wirecard	3,904	
	59,346	**29.3**
Ireland		
C&C Group	1,911	
DCC	2,073	
Irish Continental Group	1,313	
	5,297	**2.6**

List of Investments as at 30 June 2012

continued

	Valuation £'000	% of total portfolio
Italy		
Amplifon	2,194	
Azimut	3,751	
Credito Emiliano	925	
Danieli & C Risp	1,676	
Delclima	577	
De'Longhi	1,903	
Saes Getters Di Risp	701	
Salvatore Ferragamo	2,402	
Sorin	2,899	
Trevi Finanziaria Industrial	2,284	
Yoox	2,340	
	21,652	**10.7**
Luxembourg		
Aperam	864	
	864	**0.4**
Netherlands		
ASM International	4,269	
Fugro	2,359	
TKH	2,222	
	8,850	**4.4**
Norway		
BWG Homes	1,145	
Discovery Offshore	1,836	
Northland Resources	1,942	
Prospector Offshore	2,189	
Q-Free	1,046	
Stolt-Nielsen	2,061	
Storebrand	1,738	
Tomra	2,649	
	14,606	**7.2**
Spain		
Fluidra	437	
Indra Sistemas	1,949	
Pescanova	1,003	
Vueling	1,685	
	5,074	**2.5**

	Valuation £'000	% of total portfolio
Sweden		
Byggmax	1,593	
Lindab	2,394	
SAAB	2,113	
Unibet	1,610	
	7,710	**3.8**
Switzerland		
Acino	1,508	
Clariant	2,392	
Compagnie Financière Tradition	1,012	
Daetwyler	1,822	
Dufry	2,311	
EFG International	1,822	
gategroup	2,420	
Inficon	3,640	
Kuoni	2,966	
Myriad	988	
Partners Group	2,838	
Schmolz + Bickenbach	1,893	
	25,612	**12.6**
Ukraine		
Avangardco	819	
	819	**0.4**
Other		
* Doughty Hanson & Co. Fund III	298	
	298	**0.2**
Total Portfolio	**202,543**	**100.0**

* Unquoted investments

Directors

Audley Twiston-Davies (Chairman) joined the Board in 2000 and was elected Chairman in May 2002. He is currently Chairman of BlackRock Frontiers Investment Trust plc and a non-executive director of New India Investment Trust plc. Audley was formerly Chairman of Taylor Young Investment Management Limited and previously Chief Executive Officer of Foreign & Colonial Emerging Markets Limited. He is Chairman of the Company's subsidiary, TREG Finance Limited and Chairman of the Company's Management Engagement and Nominations Committees.

Christopher Casey (Audit Committee Chairman) joined the Board on 1 March 2010. He has over 30 years' strategic financial experience. He was a partner of KPMG LLP and its predecessor firms from 1992, having joined Peat Marwick & Mitchell in 1977. He was initially an audit partner responsible for a series of assignments for large and quoted companies but latterly specialised in M&A advisory assistance both pre and post deal. Mr Casey was Head of Transaction Services for the South region of KPMG LLP from 1997 to 2007 and subsequently had a market-facing role as a senior partner of the firm. He retired from KPMG LLP in February 2010. He is also a non-executive director of China Polymetallic Mining Limited. Mr Casey is also a director of the Company's subsidiary, TREG Finance Limited and a member of the Company's Management Engagement and Nominations Committees.

Andrew Martin Smith joined the Board in May 2008. He currently works as an adviser and consultant with Guinness Asset Management Limited. He holds a number of directorships including, Atlantis Japan Growth Fund Limited, M&G High Income Investment Trust, Church House Investments and North Investment Partners Limited. He is Chairman of Parmenion Capital Management.

Alexander Mettenheimer joined the Board on 1 July 2011. He is currently Deputy Chairman of the Board of Administration for Bayerische Landesbank, the leading Bavarian commercial bank for large and middle-market corporate customers in Germany and Europe and also for retail customers. Mr Mettenheimer's previous appointments include CEO of both Merck Finck & Co Privatbankiers and Confia SA as well as various positions with Citibank. He is a member of the Audit, Management Engagement and Nominations Committees.

Robert Jeens joined the Board in 2002. He is also a non-executive director of Henderson Group plc and JPMorgan Russian Securities plc. His previous non-executive appointments include Chairman of nCipher plc, Deputy Chairman of Hepworth plc and director of The Royal London Mutual Assurance Society Limited. He was formerly Group Finance Director of Woolwich plc and prior to that Finance Director of Kleinwort Benson Group plc.

Henderson Global Investors Limited, a subsidiary of Henderson Group plc, is the appointed investment manager for TR European Growth Trust. Therefore, since his appointment to the Henderson Group board in July 2009 Mr Jeens is not an independent director.

Jane Tufnell joined the Board on 1 September 2012. She co-founded Ruffer Investment Management Ltd, a privately owned investment management firm, in 1994. In 2011 she was appointed as a non-executive director of the Diverse Income Trust plc. She joined County NatWest in 1987 where she ran the NatWest pension fund exposure to UK small companies.

All directors are non-executive and deemed by the Board to be independent, with the exception of Mr Jeens, who is a non-executive director of Henderson Group plc.

Management

From 1 July 2011 the portfolio management team is led by Ollie Beckett and assisted by Simon Savill. David Rice is the appointed representative of Henderson Secretarial Services Limited, the corporate secretary.

Ollie Beckett

Simon Savill

David Rice

Directors' Remuneration Report

Introduction

This report is submitted in accordance with Sections 420-422 of the Companies Act 2006. The report also meets the relevant Listing Rules of the Financial Services Authority and describes how the Board has applied the principles relating to directors' remuneration. As required by the Act, a resolution to approve this report will be proposed at the AGM. 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.

Remuneration policy

The Board as a whole considers directors' remuneration; accordingly a committee to consider such matters has not been appointed. All directors are non-executive. None of the directors has a contract of service and a director may resign by notice in writing to the Board at any time; there are no set notice periods. Directors are remunerated in the form of fees, payable quarterly in arrears. There are no long term incentive schemes or pension arrangements with the Company or its subsidiary and the fees are not specifically related to the directors' performance, either individually or collectively. Directors' and officers' liability insurance cover is held by the Company in respect of the directors.

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 Chairman of the Board and the Chairman of the Audit Committee are paid higher fees than the other directors in recognition of their more onerous roles.

The Company's Articles of Association limit the aggregate fees payable to the Board to a total of £200,000 p.a. In the year under review, directors' fees were paid at the following annual rates: Chairman of the Board: £28,000; Chairman of the Audit Committee: £23,000; remaining directors: £21,000. The policy is to review these rates annually, although such review will not necessarily result in any change to the rates.

Amount of each director's emoluments (audited)

The fees payable in respect of each of the directors who served during the financial year were as follows:

	2012 £	2011 £
Audley Twiston-Davies	**28,000**	28,000
Christopher Casey	**23,000**	23,000
Bernard Clark(1)	**7,476**	21,000
Robert Jeens	**21,000**	21,000
Andrew Martin Smith	**21,000**	21,000
Alexander Mettenheimer(2)	**21,000**	–
Jochen Neynaber(3)	**–**	7,476
Total	**121,476**	121,476

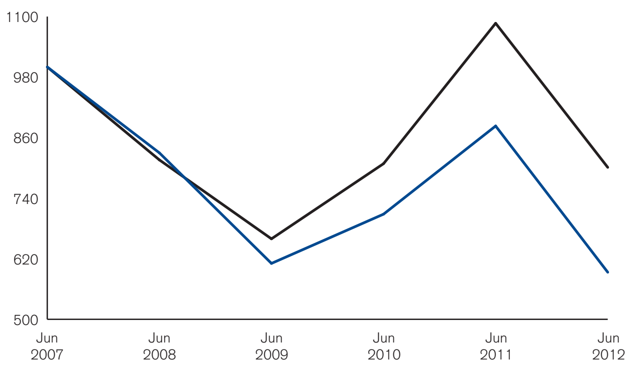
(1)Retired from the Board on 7 November 2011.

(2)Appointed to the Board on 1 July 2011.

(3)Retired from the Board on 8 November 2010.

The directors' emoluments stated were those actually paid by the Company. No other remuneration or compensation was paid or payable by the Company during the year to any of the current or former directors.

Performance against the benchmark



TR European Growth share price total return, assuming the investment of £1,000 on 30 June 2007 and the reinvestment of all dividends (excluding dealing expenses). (Source: Fundamental Data for the AIC)

HSBC Smaller Europe (ex UK) Index total return, assuming the notional investment of £1,000 on 30 June 2007 and the reinvestment of all income (excluding dealing expenses). (Source: Datastream)

By order of the Board

David Rice ACIS
For and on behalf of
Henderson Secretarial Services Limited
Company Secretary
21 September 2012

Report of the Directors

The directors present the audited financial statements of the Group and their report for the year from 1 July 2011 to 30 June 2012. The Group comprises TR European Growth Trust PLC (the "Company") and its wholly owned subsidiary, TREG Finance Limited.

TREG Finance Limited is incorporated and operates within the UK, carrying on the business of an investment dealing company. It was dormant throughout the year.

Business review

The following business review is designed to provide information primarily about the Company's business and results for the year ended 30 June 2012. The business review should be read in conjunction with the Manager's Report on pages 6 to 13, which gives a detailed review of the investment activities for the year and an outlook for the future.

a) Status

TR European Growth Trust PLC (registered in England and Wales, number 2520734 was active and domiciled in the United Kingdom) traded throughout the year and was not dormant. 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.

It is required to seek approval from HM Revenue & Customs ("HMRC") of its status as an investment trust under the above-mentioned section. HMRC approval of the Company's status as an investment trust has been received in respect of the year ended 30 June 2011, although this approval is subject to there being no subsequent enquiries under Corporation Tax Self Assessment. The directors are of the opinion that the Company has continued to conduct its affairs in a manner that will enable it to continue to gain such approval.

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

b) Investment objective and policy

The Company's investment objective is to achieve capital growth by investing predominantly in smaller and medium sized companies in Europe (excluding the UK). The benchmark is the return of the HSBC Smaller Europe (ex UK) Index (expressed in sterling).

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

- Diversification
  The Company maintains a diversified portfolio. The Company will not invest more than seven per cent of its total gross assets, calculated as at the time of investment, in any one holding. The portfolio is managed by the Manager which provides regular reports on investment activity and portfolio construction to the directors at and between Board meetings.

- Asset allocation
  Generally, the Company will invest in companies which are quoted, domiciled, listed or have operations in European countries. Unquoted investments are permitted with prior Board approval. 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 per cent of net asset value at the time of investment.

- General
  In accordance with the listing rules of the UK Listing Authority (the "Listing Rules"), it is the Company's stated policy that it will not invest more than 15 per cent of its gross assets in other listed investment companies, including investment trusts, and will not invest more than 10 per cent of its gross assets in companies that themselves may invest more than 15 per cent of their gross assets in UK listed investment companies.

c) Financial review

	At 30 June 2012	At 30 June 2011	% Change
Net assets	**£185.0m**	£264.4m	-30.0
Revenue return for the year	**£3.481m**	£1.929m	+80.5
Dividends – final	**4.50p**	3.60p	+25.0
– special	**1.50p**	0.65p	+130.8

Report of the Directors

continued

- Assets

  Net assets at 30 June 2012 amounted to £185,006,000 compared with £264,414,000 at 30 June 2011; the net asset value per ordinary share decreased from 522.20p to 370.19p.

  At 30 June 2012 there were 107 (2011: 86) separate investments, as detailed on pages 14 and 15.

- Revenue

  The Group's gross revenue totalled £4,724,000 (2011: £3,047,000). After deducting expenses, the revenue return for the year was £3,481,000 (2011: £1,929,000), an increase of 80.5% from the previous year. The increase was mostly due to an uplift in investment income.

- Expenses

  In the year under review the management fee totalled £951,000 (2011: £1,270,000) and other expenses totalled £512,000 (2011: £551,000). These figures include VAT where applicable. No performance fee is payable as the Company did not outperform the benchmark index over the three year rolling period. Finance costs totalled £437,000 (2011: £135,000). The transaction costs, which include stamp duty and totalled £355,000 (2011: £307,000), are included within the purchase costs or netted against the sales proceeds of investments.

- 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 or 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 regularly reviews the ongoing charges and monitors all Company expenses. For the year ended 30 June 2012 the ongoing charges ratio (total expenses expressed as a percentage of average shareholder funds over the year) was 0.73% (2011: 0.75%).

- Dividends

  The Board aims to make progressive and steady increases in annual dividend payments. Shareholders must, however, recognise that such increases can never be guaranteed, and that circumstances may arise when it is necessary to reduce a dividend payment. Equally, there may be instances when the level of payment must be increased in order to comply with Section 1158 of the Corporation Tax Act 2010 in respect of the retention of distributable income. Where such instances would result in a payment going beyond the Board's aim, one-off "special dividend" payments will be declared and paid.

  Subject to approval at the AGM, a final dividend of 4.50p and a special of 1.50p totalling 6.00p (2011: final of 3.60p and special of 0.65p) per share will be paid on 9 November 2012 to shareholders on the register on 5 October 2012. The ex-dividend date will be 3 October 2012.

- Payment of suppliers

  It is the payment policy of the Company to obtain the best possible terms for all business and, therefore, there is no single policy as to the terms used. In general the Company agrees with its suppliers the terms on which business will take place and it is the Company's policy to abide by such terms. There were no trade creditors at 30 June 2012 or 2011.

- Borrowings and gearing

  During the year the Board has in place an overdraft arrangement that allowed it to borrow up to £20m as and when required. Gearing (investments as a percentage of net assets) at 30 June 2012 was 9.5 per cent (2011: 2.4 per cent).

- Future developments

  While the future performance of the Company is largely dependent on the performance of international financial markets, which are subject to many external factors, the Board's intention is that the Company will continue to pursue its stated investment objective in accordance with the policy outlined above. Further comments on the outlook for the Company for the next 12 months are set out in both the Chairman's Statement on pages 2 and 3 and the Manager's Report on page 12.

d) Performance measurement and key performance indicators

In order to measure the success of the Company in meeting its objective 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 and compares, at each meeting, the performance of both the net asset value and share price for the Company and its benchmark, which, from 1 July 2004 to 30 June 2010 was a blend of 50 per cent of the return of the HSBC Smaller Europe (ex UK) Index and 50 per cent of the return of the S&P/ Citigroup EMI Europe (ex UK) Index (both expressed in sterling). The benchmark was amended to the total return of the HSBC Smaller Europe (ex UK) Index with effect from 1 July 2010. The Board considers the benchmark to be its most important key performance indicator and has determined that it should also be used to calculate whether a performance fee is payable to the Manager. Details of the performance fee arrangements are set out in (g) "Management arrangements" below.

- Discount to net asset value ("NAV")
  At each Board meeting, the Board monitors the level of the Company's discount to NAV and reviews the average discount/premium for the AIC European Smaller Companies sector.

  The Company publishes a NAV per share figure on a daily basis, through the official newswire of the London Stock Exchange. This figure is calculated in accordance with the AIC formula, which, since June 2008, includes current year revenue items. Prior to that date, the AIC formula and the daily NAV excluded current year revenue items.

- Performance against the Company's peer group
  The Company is included in the AIC European Smaller Companies sector. In addition to comparison against the stated benchmark, the Board also considers at each meeting the performance of this AIC sector, as well as other European investment trusts and other European funds managed by Henderson.

The following table sets out, with comparatives, the key performance indicators:

	% Year to 30 June 2012	% Year to 30 June 2011
NAV total return	**-28.1**	+36.8
Benchmark total return*	**-26.3**	+34.4
AIC Sector NAV total return	**-21.7**	+41.0
Share price total return	**-32.9**	+24.6
AIC Sector share price total return	**-23.7**	+35.5
Discount at year end	**23.6**	18.2

Source: Morningstar, except * Datastream.

e) Duration of the Company and going concern statement

The Company's Articles of Association, which were approved by shareholders at the AGM in November 2010, require that at the AGM of the Company to be held in 2010, and every third year thereafter, an ordinary resolution be put to approve the continuation of the Company. The resolution put to the AGM in November 2010 was duly passed. An ordinary resolution to continue the life of the Company will be proposed at the AGM in 2013.

As the assets of the Company consist mainly of a portfolio of diversified securities that are readily realisable, the Company has adequate financial resources to meet its liabilities and continue in operational existence for the foreseeable future.

For these reasons, the directors believe that it is appropriate to continue to adopt the going concern basis in preparing the financial statements. In reviewing the position as at the date of this report, the Board has considered "Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009" published by the Financial Reporting Council in October 2009.

f) Transactions with the Manager

Investment management, accounting, company secretarial and administration services are provided to the Company by wholly-owned subsidiary companies of Henderson Global Investors Limited ("Henderson" or "Manager"). This 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 other material transactions with the Manager affecting the financial position or performance of the Company during the year under review.

During the year under review the Manager used certain services which were paid for, or provided by, various brokers. In return it placed business, which may have included transactions relating to the Company, with those brokers.

g) Management arrangements
The base ad valorem fee is 0.5 per cent per annum, and is calculated as 0.125 per cent of income-inclusive total net assets at each quarter end. The notice period is six months.

In order to determine whether a performance fee will be paid, performance is measured against, and expressed relative to, the benchmark. Performance of both the Company and the benchmark is measured on a NAV total return (with gross income reinvested) basis and is measured over three years.

In any given year in which a performance fee is payable, the performance fee rate will be 15 per cent of the positive difference between the average annual NAV total return and the average annual total return of the benchmark. The upper limit on the total fee, including the base fee and any performance fee, for any given accounting year will be 2.4 per cent of the income-inclusive NAV of the Company as at the last day of the relevant calculation period. For clarity, performance will be measured solely on the basis of NAV total return relative to the total return of the benchmark index; no account will be taken of whether the NAV grows or shrinks in absolute terms.

As performance is measured on a three-year rolling basis, the performance for the year under review has been calculated on the average performance in the financial years ended June 2010 to June 2012. There is no performance fee payable for this period.

h) Principal risks and uncertainties
The Board has drawn up a matrix of risks facing the Company and has put in place a schedule of investment limits and restrictions, appropriate to the Company's investment objective and policy, in order to mitigate these risks as far as practicable. The principal risks which have been identified and the steps taken by the Board to mitigate these are as follows:

- Investment activity and performance risks
  An inappropriate investment strategy (for example, in terms of asset allocation or the level of gearing) may result in underperformance against the Company's benchmark index and the companies in its peer group. The Board monitors investment performance at each Board meeting and regularly reviews the extent of its borrowings.

- Portfolio and market price risks
  Although the Company invests almost entirely in securities that are quoted on recognised markets, share prices may move rapidly. The companies in which investments are made may operate unsuccessfully, or fail entirely. A fall in the market value of the Company's portfolio would have an adverse effect on shareholders' funds. The Board reviews the portfolio each month and mitigates this risk through diversification of investments in the portfolio.

- Tax and regulatory risks
  A breach of Section 1158 of the Corporation Tax Act 2010 could lead to a loss of investment trust status, resulting in capital gains realised within the portfolio being subject to corporation tax. A breach of the UKLA Listing Rules could result in suspension of the Company's shares, while a breach of the Companies Act 2006 could lead to criminal proceedings, or financial or reputational damage.

  The Manager has contracted to provide investment, company secretarial, administration and accounting services through qualified professionals. The Board receives internal control reports produced by the Manager on a quarterly basis, which confirm regulatory compliance.

- Operational risks
  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 Company is also exposed to the operational risk that one or more of its suppliers may not provide the required level of service. 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 controls section of the corporate governance statement on pages 26 and 27.

Further details of the Company's exposure to market risk (including market price risk, currency risk and interest rate risk), liquidity risk and credit risk and how they are managed are contained in note 15 on pages 47 to 54.

Corporate governance statement

The Board is accountable to shareholders for the governance of the Company's affairs. Paragraph 7.2 of the Disclosure and Transparency Rules of the UK Listing Authority requires all listed companies to publish a corporate governance statement, while paragraph 9.8.6 of the Listing Rules requires all listed companies incorporated in the UK to disclose how they have applied the principles, and complied with the provisions, of the UK Code on Corporate Governance issued by the Financial Reporting Council (the "FRC") in 2010 (the "FRC Code").

a) Applicable corporate governance code

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-executives. Thus not all the provisions of the FRC Code 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 October 2010 (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 Listing Rules.

Copies of the AIC Code and the AIC Guide can be found at **www.theaic.co.uk**

b) Statement of compliance

The AIC Code comprises 21 principles. The directors believe that during the year under review they have complied with the provisions of the AIC Code, insofar as they apply to the Company's business, and with the provisions of the FRC Code with the following exceptions. The FRC Code includes provisions relating to:

- The role of chief executive
- Executive directors' remuneration
- The need for an internal audit function

As the Company delegates its day-to-day operations to an external investment manager and has no employees or executive directors, the Board does not consider these provisions to be relevant to the Company and has not reported further in respect of these provisions.

- A senior independent director has not been identified as the Board considers that all the directors have different qualities and areas of expertise on which they may lead where issues arise and to whom concerns can be conveyed.

c) the Board of Directors

- Board composition

  The Articles of Association provide that the total number of directors shall not be less than two nor more than eight; the Board currently consists of six non-executive directors. The biographies of the directors holding office at the date of this report, which are set out on page 16, demonstrate the breadth of investment, commercial and professional experience relevant to their positions as directors.

- Directors' appointment, retirement and rotation

  The Board may appoint directors to the Board without shareholder approval. Any director so appointed must stand for election by the shareholders at the next AGM in accordance with the Articles of Association. Alexander Mettenheimer was appointed to the Board on 1 July 2011 and was elected to the Board by shareholders at the 2011 AGM. Jane Tufnell was appointed to the Board on 1 September 2012 and will stand for election at the forthcoming AGM.

  LR 15.2.13A of the Listing Rules states that any director who is also a director of the investment manager is subject to annual re-election. Following his appointment to the Henderson Group plc board in July 2009, Robert Jeens is therefore required to seek re-election to the Board at the 2012 AGM.

  Principle 3 of the AIC Code states that any director who has served for more than nine years is subject to annual re-election. Audley Twiston-Davies (who was appointed in 2000) is therefore required to seek re-election to the Board at the 2012 AGM.

Report of the Directors

continued

All directors retire at intervals of not more than three years; the Company's Articles of Association also provide that one-third (but not more than one-third) of "relevant directors" must seek re-election at each AGM. "Relevant directors" exclude any director who is required to seek re-election for any reason other than rotation in accordance with the Articles of Association. Excluding Robert Jeens and Audley Twiston-Davies, who are already required to stand down and seek re-election and are therefore excluded from the calculation, there are three "relevant" directors one of whom must retire by rotation. Christopher Casey, who was last re-elected in 2010, will therefore retire by rotation and has confirmed that he wishes to seek re-election to the Board.

Director	Date of appointment	Date of last re-election
Christopher Casey	1 March 2010	2010
Robert Jeens	20 May 2002	Annual re-election under Listing Rules
Andrew Martin Smith	19 May 2008	2011
Alexander Mettenheimer	1 July 2011	2011
Audley Twiston-Davies	31 January 2000	Annual re-election under Code
Jane Tufnell	1 September 2012	n/a

The contribution and performance of each of the directors seeking re-election was reviewed by the Nominations Committee at its meeting in July 2012, which recommended to the Board the continuing appointment of each of those directors.

Under the Articles of Association shareholders may remove a director before the end of his term by passing an ordinary resolution at a meeting. An ordinary resolution is passed if more than 50 per cent of the votes cast, in person or by proxy, are in favour of the resolution.

- Board independence and tenure

The Board's policy on tenure is that retaining directors with sufficient experience of both the Company and the markets is of great benefit to shareholders and long-serving directors are less likely to take a short-term view. The Board also believes that length of service does not diminish the contribution from a director; conversely a director's experience and knowledge of the Company can be a positive benefit to the Board.

The directors have reviewed the balance of ages and experience of all of the Board members and confirm that each of the directors, including the Chairman (who has served for more than twelve years) and Robert Jeens (who is a director of Henderson Group plc, the parent company of the Manager), continues to provide a valuable and beneficial contribution to the Company, offering a mix of complementary abilities, length of tenure and experience. All directors have a wide range of other interests and are not dependent on the Company itself. The Board has therefore concluded that, with the exception of Mr Jeens, all the directors remain independent. There is therefore a majority of independent directors.

Except as disclosed above in relation to Robert Jeens' interest in the contract between the Company and the Manager, there were no contracts subsisting during or at the end of the year in which a director of the Company is or was materially interested and which is or was significant in relation to the Company's business.

- Directors' remuneration

A separate remuneration committee has not been established as the Board consists of only non-executive directors. A separate report on directors' remuneration is set out in the Directors' Remuneration Report on page 17, which includes the Board's procedure for determining directors' remuneration.

- Directors' interests in shares

The interests of the directors in the ordinary shares of the Company at the beginning and end of the financial year are shown in the table below.

	Ordinary shares of 12.5p	
	30 June 2012	1 July 2011
Beneficial:		
Christopher Casey	**6,000**	–
Bernard Clark [1]	**n/a**	10,000
Robert Jeens	**10,000**	10,000
Andrew Martin Smith	**10,000**	5,000
Alexander Mettenheimer	**–**	–
Audley Twiston-Davies	**12,500**	12,500

(1) Bernard Clark retired from the Board on 7 November 2011.

There have been no changes to the directors' holdings since year end.

- Directors' conflicts of interest

Directors have a duty to avoid situations where they have, or could have, a direct or indirect interest that conflicts, or possibly could conflict, with the Company's interests. Since 1 October 2008, the Companies Act 2006 (the "Act") has allowed directors of public companies to authorise such conflicts and potential conflicts, where appropriate, but only if the Articles of Association contain a provision to this effect. The Act also allows the Articles of Association to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty. There are two safe harbours – either the situation cannot reasonably be regarded as likely to give rise to a conflict of interest or the matter has been authorised in advance by the directors. The Company's Articles of Association give the directors the relevant authority required to deal with conflicts of interest.

Each of the directors has provided a statement of all conflicts of interest and potential conflicts of interest, if any, applicable to the Company. A register of conflicts of interest has been compiled and approved by the Board. The directors have all undertaken to notify the Chairman as soon as they become aware of any new potential conflicts of interest that would need to be approved by the Board and added to the register, which is reviewed annually by the Board.

Directors advise the Chairman and the Company Secretary in advance of any proposed external appointment and new directors will be asked to submit a list of potential situations falling within the conflicts of interest provisions of the Act in advance of joining the Board. The Chairman determines whether the relevant appointment causes a conflict or potential conflict of interest and should therefore be considered by the Board. Only directors who have no interest in the matter being considered are able to participate in the Board approval process. In deciding whether to approve a conflict of interest, directors act in a way they consider, in good faith, to be most likely to promote the Company's success in taking such a decision. The Board can impose limits or conditions when giving authorisation if the directors consider this to be appropriate.

At its annual review in September 2012 the Board confirmed that its powers of authorisation of conflicts had operated effectively since they were introduced. The Board also confirmed that its procedures for the approval of conflicts of interest have been followed by all the directors.

- Directors' professional development
  When a new director is appointed he or she is offered a training seminar that is held 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 also participate in relevant training and industry seminars.

- Directors' indemnity
  Directors' and officers' liability insurance cover is in place in respect of the directors. Under the Company's Articles of Association and, subject to the provisions of UK legislation, a qualifying third party provision indemnity may be provided to directors in respect of costs which they may incur relating to the defence of any proceedings brought against them arising out of their positions as directors, in which they are acquitted or judgment is given in their favour by the Court. No indemnity was given during the year or up to the date of this report.

d) the Board and its committees

- Responsibilities of the Board and its Committees
  Currently the Board meets at least five times each year and is responsible for the effective stewardship of the Company's affairs. Additional meetings of the Board may be arranged as required.

  The Board has a formal schedule of matters specifically reserved for its decision, which are categorised under various headings including strategy, management, structure, capital, financial reporting, internal controls, gearing, asset allocation, share price discount, contracts, investment policy, finance, risk, investment restrictions, performance, corporate governance and Board membership and appointments.

  At each meeting the Board reviews the Company's investment performance and considers financial analyses and other reports of an operational nature. The Board monitors compliance with the Company's objective and is responsible for setting asset allocation, investment and gearing limits within which the Manager has discretion to act. The Board has responsibility for the approval of unquoted investments and any investments in in-house funds managed or advised by the Manager. It also has adopted a procedure for directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company. In order to enable them to discharge their responsibilities, all directors have full and timely access to relevant information.

The Board has three Committees: the Audit Committee, the Management Engagement Committee and the Nominations Committee. The terms of reference for these Committees are available on the Company's website.

- Audit Committee

The Audit Committee currently consists of all the directors except Robert Jeens. All the members are independent and at least one member has recent and relevant financial experience. The Chairman is Christopher Casey, who is a Chartered Accountant.

The Committee meets at least twice a year to review the internal financial and non-financial controls; to consider and recommend to the Board for approval the contents of the draft half year and annual reports to shareholders; and to review the accounting policies and significant financial reporting judgments. In addition, the Committee reviews the nature and scope of the external audit on the annual report and the findings therefrom, the terms of appointment of the auditors together with their remuneration, performance, independence and objectivity, as well as any non-audit services provided by the auditors. It meets with representatives of the Manager and receives reports on the quality and effectiveness of the accounting records and management information maintained on behalf of the Company.

The Audit Committee has formulated a policy on the provision of non-audit services by the Company's auditors. The Audit Committee has determined that the Company's appointed auditors will never be considered for the provision of non-audit services, such as accounting and preparation of the financial statements, internal audit and custody. The auditors may, if required, provide non-audit services relating to a review of the Company's half year report and a review of the calculation of any performance fee provision. All other non-audit services will be judged on a case-by-case basis. There were no non-audit services provided by the auditors during the year.

The Audit Committee remains satisfied with the effectiveness of the audit provided by PricewaterhouseCoopers LLP, whose fees can be found on page 42, note 5. The Audit Committee has reviewed the audit appointment in the past and does not consider it necessary to repeat this at present. The auditors are required to rotate the audit partner every five years and this is the second year that the current partner has been in place.

PricewaterhouseCoopers LLP have indicated their willingness to continue in office. Accordingly, resolutions to re-appoint PricewaterhouseCoopers LLP as auditors to the Company, and to authorise the directors to determine their remuneration, will be proposed at the 2012 AGM.

- Nominations Committee

All directors are members of the Nominations Committee except Robert Jeens. Audley Twiston-Davies is Chairman of the Committee but would not chair the Committee if his successor was being considered. The Committee is responsible for reviewing Board succession planning, the performance of the Board as a whole and the Board Committees and the appointment of new directors. The Committee met in July 2012 to carry out its annual review of the composition and size of the Board and its Committees. The results of the performance evaluation are contained in the following section (e) "Performance evaluation".

When considering succession planning, the Committee bears in mind the balance of skills, knowledge and experience existing on the Board and will recommend when the recruitment of additional non-executive directors is required. Once a decision is made to recruit additional directors to the Board, a formal job description is drawn up and each director is invited to submit nominations and these are considered in accordance with the Board's agreed procedures. The Committee may also use external agencies as and when the requirement to recruit an additional Board member becomes necessary.

- Management Engagement Committee
  All the directors except Robert Jeens are members of the Committee. The Chairman of the Committee is Audley Twiston-Davies. The Committee meets annually to review the investment management agreement with Henderson and to review the services provided. Details of the process are contained in (h) "Continued Appointment of the Manager" on page 27.

- Board attendance
  Attendance at the Board and Board committee meetings held during the financial year are shown in the following table. All directors usually attend the AGM.

	Board	Audit Committee	Nominations Committee	Management Engagement Committee
No of meetings	**5**	**3**	**1**	**1**
Audley Twiston-Davies	5	3	1	1
Christopher Casey	5	3	1	1
Bernard Clark (1)	3	1	1	1
Robert Jeens	5	N/A	N/A	N/A
Andrew Martin Smith	5	3	1	1
Alexander Mettenheimer	5	3	1	1

(1) Retired on 7 November 2011

e) Performance evaluation

- The Company
  The performance of the Company is considered in detail at each Board meeting.

- The Board
  The work of the Board as a whole and of the Board Committees was reviewed by the Nominations Committee in July 2012 and no areas of concern were identified.

- Individual directors
  The Chairman reviews each individual director's contribution on an annual basis. The Nominations Committee meets without the Chairman present in order to review the performance of the Chairman. At the Nominations Committee meeting in July 2012 it was agreed that the Chairman continues to promote effective leadership and each of the directors contributes valuable experience and skills to the Board. The Committee also reviewed the performance of the directors who will be seeking re-election at the 2012 AGM and recommended to the Board the continuing appointment of those directors.

f) Internal controls

The Board has established an ongoing process for identifying, evaluating and managing any major risks faced by the Company. The process has been in place since 2 March 2000 and is subject to regular review by the Board. It accords with the Internal Control Guidance for Directors on the Combined Code published in September 1999 ("the Turnbull Guidance").

The Board has overall responsibility for the Company's system of internal controls and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate 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 have been analysed and recorded in a risk map which is reviewed regularly. The Board has reviewed the effectiveness of the Company's system of internal controls for the year ended 30 June 2012. The Board confirms that it has not identified, or been advised of, any failings or weaknesses that have been determined as significant.

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 compliance and risk department on a continuing basis.

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 which includes a report from the Manager's auditors on the design and operating effectiveness of its controls.

g) Accountability and relationship with the Manager
The Statement of Directors' Responsibilities in respect of the Financial Statements is set out on page 30, the Report of the Independent Auditors on pages 31 and 32 and the going concern statement on page 20.

The Board has delegated contractually to external third parties, 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 registration services. Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of the services offered, including the control systems in operation in so far as they relate to the affairs of the Company.

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

The Manager takes decisions as to the purchase and sale of individual investments. The Manager also ensures that all directors receive, in a timely manner, all relevant management, regulatory and financial information. Representatives of the Manager attend each Board meeting enabling the directors to probe further on matters of concern. A formal schedule of matters specifically reserved for decision by the full Board has been defined and a procedure adopted for directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company within certain parameters. 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 and that applicable rules and regulations are complied with. The Board and the Manager operate in a supportive, cooperative and open environment.

h) Continued appointment of the Manager
The Board considers the arrangements for the provision of investment management and other services to the Company on an ongoing basis. The principal contents of the agreement with the Manager are explained under "Management arrangements" on page 21.

The Board reviews investment performance at each Board meeting and a formal review of the Manager is conducted annually by the Management Engagement Committee.

As a result of the Committee's review in July 2012, it is the opinion of the directors that the continued appointment of the current Manager on the terms agreed is in the interests of the Company's shareholders as a whole.

i) Share capital and shareholders

- Share capital
  The Company's share capital comprises ordinary shares of 12.5p nominal value. The voting rights of the ordinary shares on a poll are one vote for every two shares held. There are no restrictions on the transfer of the Company's ordinary shares and there are no shares that carry specific rights with regards to control of the Company.

  At 30 June 2011, there were 50,634,229 shares in issue. During the year, the Company bought back and cancelled 658,332 shares, representing 1.3 per cent of the shares in issue at the beginning of the year, for a total cost of £2,107,000. At 30 June 2012 the number of shares in issue was 49,975,897.

  Since 30 June 2012 and up to the date of this document, the Company has not bought back any shares.

- Substantial share interests
  Declarations of interests in the voting rights of the Company at 30 June 2012 are set out below.

Shareholder	% of voting rights
1607 Capital Partners	6.1%
Legal & General Investment Management	3.7%
Rathbone Brothers plc	3.5%

The Company has not been notified of any changes since year end.

At 30 June 2012, 17.9 per cent of the ordinary shares were held by participants in Halifax Share Dealing products and 4.1 per cent by participants in Henderson products. These participants are given the opportunity to instruct the relevant nominee company to exercise the voting rights appertaining to their shares in respect of all general meetings of the Company. The nominee companies have stated that they will exercise the voting rights of any shares that have not been exercised by the individual participants. They 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.

- Relations with shareholders

Shareholder relations are given high priority by the Board. The prime medium by which the Company communicates with its shareholders is through the Half Year Report and the Annual Report which aim to provide shareholders with a clear understanding of the Company's activities and their results. This information is supplemented by the daily calculation and publication at the London Stock Exchange of the NAV of the Company's ordinary shares and a monthly fact sheet.

The Board considers that shareholders should be encouraged to attend and participate in the AGM, which is chaired by the Chairman of the Board and which all directors normally attend. Shareholders have the opportunity to address questions to the Chairman of the Board, the Chairman of the Audit Committee and all other directors at the meeting. The Fund Manager, as the representative of Henderson, makes a presentation to shareholders. A summary of the proxy votes received on the resolutions proposed is displayed at the meeting. It is the intention of the Board that the Annual Report and Notice of AGM be issued to shareholders so as to provide at least twenty working days' notice of the meeting. Shareholders wishing to lodge questions in advance of the meeting are invited to do so by writing to the Company Secretary at the registered office address given on page 59.

General presentations to both shareholders and analysts follow the publication of the annual results. All meetings between the Manager and shareholders are reported to the Board.

- Board authorities to issue and buy back shares

At each AGM the directors seek annual authority from shareholders to allot new ordinary shares, to disapply the pre-emption rights of existing shareholders, and to buy back for cancellation the Company's ordinary shares. As at the date of this report the authorities granted at the 2011 AGM to allot new ordinary shares and to disapply pre-emption rights have not been used.

The directors used the buy-back authority granted at the 2011 AGM to repurchase and cancel 658,332 shares. At the date of this report, the Company has remaining authority to buy back a further 2,335,168 shares. The authority will expire at the conclusion of the 2012 AGM.

More details of the authorities to be sought at the 2012 AGM are set out in the separate circular containing the Notice of Annual General Meeting.

j) Corporate responsibility

- Responsible investment (SEE statement)

Responsible investment is the term Henderson uses to cover its work on corporate governance and corporate responsibility (or social, environmental and ethical ("SEE") issues) in the companies in which it invest 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; however, an investment may not necessarily be ruled out on social and environmental grounds only.

- Voting policy
  Henderson's responsible investment policy sets out the Manager's 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 reviewed Henderson's policy and has delegated responsibility for voting to the Manager. The Board receives regular reports on the voting undertaken by the Manager 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 and/or members of the Board will give specific instructions on voting non-routine and unusual or controversial resolutions. Decisions not to support resolutions and the rationale therefore are fed back to the investee company prior to voting.

  The Henderson responsible investment policy can be found at www.henderson.com

- Employee and environmental matters
  The Company has no employees and outsources its investment, management and company secretarial services to subsidiaries of 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.

- Bribery Act
  The Board has reviewed the implications of the Bribery Act 2010, which came into force on 1 July 2011 and confirmed its zero tolerance to bribery and corruption in its business activities. It has sought assurances from its main contractors and suppliers that they will maintain adequate safeguards to protect against any potentially illegal behaviour by their employees and agents.

Annual General Meeting (AGM)

The AGM will be held on Monday 5 November 2012 at 12.30pm. The formal notice of the AGM, including details of the business to be conducted at the meeting and explanations of the resolutions, is set out in the separate circular to be sent to shareholders with this report.

Directors' statement as to disclosure of information to auditors

The directors who were members of the Board at the time of approving this report are listed on page 16. Each of those directors confirms that:

- to the best of their knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditors are unaware; and

- they have 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.

By order of the Board

David Rice ACIS
For and on behalf of
Henderson Secretarial Services Limited
Company Secretary

21 September 2012

Statement of Directors' Responsibilities

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 Group and Parent Company financial statements in accordance with International Financial Reporting Standards ("IFRSs") 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 Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs 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 the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group 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, whose names and functions are listed on page 16, confirms that, to the best of his knowledge:

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

For and on behalf of the Board
Audley Twiston-Davies, Chairman
21 September 2012

The financial statements are published at www.treuropeangrowth.com a website maintained by the Company's Manager, Henderson. The maintenance and integrity of this website 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 the 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 financial statements may differ from legislation in other jurisdictions.

Report of the Independent Auditors

to the members of TR European Growth Trust PLC

We have audited the financial statements of TR European Growth Trust PLC for the year ended 30 June 2012 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statements of Changes in Equity, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Cash Flow Statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 30, 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 International Standards on Auditing (UK and 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.

Scope of the audit of the financial statements

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 Group's and the Parent 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. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 June 2012 and of the Group's loss and Group's and Parent Company's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- 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 Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Report of the Independent Auditors
continued

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 20, in relation to going concern;
- the parts of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Sally Cosgrove (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

21 September 2012

Consolidated Statement of Comprehensive Income

for the year ended 30 June 2012

Notes		Year ended 30 June 2012 Revenue return £'000	Capital return £'000	Total £'000	Year ended 30 June 2011 Revenue return £'000	Capital return £'000	Total £'000
2	Investment income	**4,722**	**–**	**4,722**	2,979	–	2,979
3	Other income	**2**	**–**	**2**	68	–	68
10	(Losses)/gains on investments held at fair value through profit or loss	**–**	**(77,519)**	**(77,519)**	–	70,112	70,112
	Total income/(loss)	**4,724**	**(77,519)**	**(72,795)**	3,047	70,112	73,159
	Expenses						
4	Management fees	**(190)**	**(761)**	**(951)**	(254)	(1,016)	(1,270)
5	Other operating expenses	**(512)**	**–**	**(512)**	(551)	–	(551)
	Profit/(loss) before finance costs and taxation	**4,022**	**(78,280)**	**(74,258)**	2,242	69,096	71,338
6	Finance costs	**(87)**	**(350)**	**(437)**	(27)	(108)	(135)
	Profit/(loss) before taxation	**3,935**	**(78,630)**	**(74,695)**	2,215	68,988	71,203
7	Taxation	**(454)**	**–**	**(454)**	(286)	–	(286)
	Profit/(loss) for the year and total comprehensive income/(loss)	**3,481**	**(78,630)**	**(75,149)**	1,929	68,988	70,917
8	**Earnings/(loss) per ordinary share – basic and diluted**	**6.89p**	**(155.73p)**	**(148.84p)**	3.79p	135.36p	139.15p

The total column of this statement represents the Consolidated 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.

All income is attributable to the equity holders of TR European Growth Trust PLC, the parent company.

The net loss of the Company for the year was £75,149,000 (2011: profit of £70,917,000).

The notes on pages 37 to 56 form part of these financial statements

Consolidated and Parent Company Statements of Changes in Equity

for the year ended 30 June 2012

Consolidated — Year ended 30 June 2012

Notes		Called up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
	Total equity at 1 July 2011	**6,329**	**115,451**	**13,849**	**112,472**	**16,313**	**264,414**
	Total comprehensive income:						
	(Loss)/profit for the year	**–**	**–**	**–**	**(78,630)**	**3,481**	**(75,149)**
	Transactions with owners, recorded directly to equity:						
9	**Ordinary dividends paid**	**–**	**–**	**–**	**–**	**(2,152)**	**(2,152)**
16	**Buy-backs of ordinary shares**	**(82)**	**–**	**82**	**(2,107)**	**–**	**(2,107)**
	Total equity at 30 June 2012	**6,247**	**115,451**	**13,931**	**31,735**	**17,642**	**185,006**

Consolidated — Year ended 30 June 2011

Notes		Called up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
	Total equity at 1 July 2010	6,453	115,451	13,725	47,286	16,562	199,477
	Total comprehensive income:						
	Profit for the year	–	–	–	68,988	1,929	70,917
	Transactions with owners, recorded directly to equity:						
9	Ordinary dividends paid	–	–	–	–	(2,178)	(2,178)
16	Buy-backs of ordinary shares	(124)	–	124	(3,802)	–	(3,802)
	Total equity at 30 June 2011	6,329	115,451	13,849	112,472	16,313	264,414

Company — Year ended 30 June 2012

Notes		Called up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
	Total equity at 1 July 2011	**6,329**	**115,451**	**13,849**	**113,528**	**15,257**	**264,414**
	Total comprehensive income:						
	(Loss)/profit for the year	**–**	**–**	**–**	**(78,631)**	**3,482**	**(75,149)**
	Transactions with owners, recorded directly to equity:						
9	**Ordinary dividends paid**	**–**	**–**	**–**	**–**	**(2,152)**	**(2,152)**
16	**Buy-backs of ordinary shares**	**(82)**	**–**	**82**	**(2,107)**	**–**	**(2,107)**
	Total equity at 30 June 2012	**6,247**	**115,451**	**13,931**	**32,790**	**16,587**	**185,006**

Company — Year ended 30 June 2011

Notes		Called up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
	Total equity at 1 July 2010	6,453	115,451	13,725	48,843	15,005	199,477
	Total comprehensive income:						
	Profit for the year	–	–	–	68,487	2,430	70,917
	Transactions with owners, recorded directly to equity:						
9	Ordinary dividends paid	–	–	–	–	(2,178)	(2,178)
16	Buy-backs of ordinary shares	(124)	–	124	(3,802)	–	(3,802)
	Total equity at 30 June 2011	6,329	115,451	13,849	113,528	15,257	264,414

The notes on pages 37 to 56 form part of these financial statements

Consolidated and Parent Company Balance Sheets

at 30 June 2012

Notes		Consolidated 2012 £'000	Consolidated 2011 £'000	Company 2012 £'000	Company 2011 £'000
	Non current assets				
10	Investments held at fair value through profit or loss	**202,543**	270,800	**203,529**	271,787
	Current assets				
13	Receivables	**2,026**	2,528	**2,026**	2,528
	Cash and cash equivalents	**3**	403	**–**	400
		2,029	2,931	**2,026**	2,928
	Total assets	**204,572**	273,731	**205,555**	274,715
	Current liabilities				
14	Payables	**(790)**	(557)	**(1,773)**	(1,541)
	Bank overdrafts	**(18,776)**	(8,760)	**(18,776)**	(8,760)
		(19,566)	(9,317)	**(20,549)**	(10,301)
	Net assets	**185,006**	264,414	**185,006**	264,414
	Equity attributable to equity shareholders				
16	Called up share capital	**6,247**	6,329	**6,247**	6,329
17	Share premium account	**115,451**	115,451	**115,451**	115,451
18	Capital redemption reserve	**13,931**	13,849	**13,931**	13,849
	Retained earnings:				
18	Other capital reserves	**31,735**	112,472	**32,790**	113,528
19	Revenue reserve	**17,642**	16,313	**16,587**	15,257
20	**Total equity**	**185,006**	264,414	**185,006**	264,414
20	**Net asset value per ordinary share – basic and diluted**	**370.19p**	522.20p	**370.19p**	522.20p

These financial statements were approved by the directors on 21 September 2012 and signed on their behalf by:

Audley Twiston-Davies
Chairman

The notes on pages 37 to 56 form part of these financial statements

Consolidated and Parent Company Cash Flow Statements

for the year ended 30 June 2012

	Year ended 30 June 2012 Consolidated £'000	Year ended 30 June 2012 Company £'000	Year ended 30 June 2011 Consolidated £'000	Year ended 30 June 2011 Company £'000
Operating activities				
(Loss)/profit before taxation	**(74,695)**	**(74,695)**	71,203	71,203
Add back: interest payable	**437**	**437**	135	135
Add/(less) losses/(gains) on investments held at fair value through profit or loss	**77,519**	**77,520**	(70,112)	(69,611)
Sales of investments held at fair value through profit or loss	**106,945**	**106,945**	125,548	125,548
Purchases of investments held at fair value through profit or loss	**(117,726)**	**(117,726)**	(133,619)	(133,619)
Withholding tax on dividends deducted at source	**(630)**	**(630)**	(502)	(502)
(Increase)/decrease in prepayments and accrued income	**(57)**	**(57)**	43	43
Decrease in amounts due from brokers	**553**	**553**	7,942	7,942
(Decrease)/increase in accruals and deferred income	**(116)**	**(117)**	106	106
Increase/(decrease) in amounts due to brokers	**225**	**225**	(28)	(28)
Decrease in amounts due to subsidiary undertaking	**–**	**–**	–	(501)
Net cash (outflow)/inflow from operating activities before interest and taxation	**(7,545)**	**(7,545)**	716	716
Interest paid	**(437)**	**(437)**	(135)	(135)
Taxation recovered	**182**	**182**	184	184
Net cash (outflow)/inflow from operating activities	**(7,800)**	**(7,800)**	765	765
Financing activities				
Equity dividends paid (net of refund of unclaimed dividends)	**(2,152)**	**(2,152)**	(2,178)	(2,178)
Buy-backs of ordinary shares	**(2,107)**	**(2,107)**	(4,294)	(4,294)
Net cash used in financing	**(4,259)**	**(4,259)**	(6,472)	(6,472)
Decrease in cash and cash equivalents	**(12,059)**	**(12,059)**	(5,707)	(5,707)
Cash and cash equivalents at the start of year	**(8,357)**	**(8,360)**	(2,752)	(2,755)
Exchange movements	**1,643**	**1,643**	102	102
Cash and cash equivalents at the end of year	**(18,773)**	**(18,776)**	(8,357)	(8,360)
Comprising:				
Cash at bank	**3**	**–**	403	400
Bank overdrafts	**(18,776)**	**(18,776)**	(8,760)	(8,760)
	(18,773)	**(18,776)**	(8,357)	(8,360)

The notes on pages 37 to 56 form part of these financial statements

Notes to the Financial Statements

1 Accounting policies

(a) Basis of preparation

The consolidated and parent company financial statements for the year ended 30 June 2012 have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRSs. IFRSs comprise standards and interpretations approved by the International Accounting Standards Board ("IASB"), together with interpretations of the International Accounting Standards and Standing Interpretations Committee approved by the International Accounting Standards Committee ("IASC") that remain in effect, to the extent that IFRSs have been adopted by the European Union.

The financial statements have been prepared on a going concern basis and on the historical cost basis, except for the revaluation of certain financial instruments. The principal accounting policies adopted are set out below. Where presentational guidance set out in the Statement of Recommended Practice ("SORP") for investment trusts issued by the Association of Investment Companies ("AIC") in January 2009 is consistent with the requirements of IFRSs, the directors have sought to prepare the financial statements on a basis consistent with the recommendations of the SORP.

The financial position of the Group is described in the Business Review on pages 18 to 21. Note 15 to the financial statements includes the Groups' policies and process for managing its capital; its financial risk management objectives; and details of financial instruments and exposure to credit risk and liquidity risk.

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. No impact on the financial statements.
- IFRS 7 (amendment), Financial Instruments – Disclosures – amendments resulting from the 2010 annual improvement review. No impact on the financial statements.
- IAS 24 (revised), Related Party Disclosures – disclosure amendment in respect of "commitments" with related parties . No impact on the financial statements.

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

- 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 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 2013, subject to endorsement by the EU.
- IFRS 12, "Disclosures of interests in other entities" (effective for annual periods beginning on or after 1 January 2012) – 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. The company is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2013, subject to endorsement by the EU.

1 Accounting policies (continued)

- 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. The company is yet to assess IFRS13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on or after 1 January 2012, subject to endorsement by the EU.
- 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.

(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 27 Separate Financial Statement
- IAS 28 Associates and joint venture

(b) Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and of its sole wholly owned subsidiary undertaking, TREG Finance Limited. Consistent accounting policies have been used across the Group. The intragroup balances are eliminated on consolidation. The investment in the subsidiary is recognised at fair value in the financial statements of the Company.

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

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

Changes in the fair value of investments held at fair value through profit or loss and gains and losses on disposal are recognised in the Consolidated 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 Statement of Comprehensive Income

In order to better reflect the activities of an investment trust company, and in accordance with guidance issued by 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. Additionally, the net revenue is the measure the directors believe appropriate in assessing the Group's compliance with certain requirements set out in Section 1158 of the Corporation Tax Act 2010.

Notes to the Financial Statements

continued

1 Accounting policies (continued)

(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. Bank deposit interest 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.

(f) Expenses

All expenses and interest payable are accounted for on an accruals basis. On the basis of the Board's expected long-term split of total returns in the form of capital and revenue returns of 80% and 20%, respectively, the Company charges 80% of its finance costs and management fees to capital. Any performance fees payable are allocated wholly to capital, reflecting the fact that, although they are calculated on a total return basis, they are expected to be attributable largely, if not wholly, to capital performance. Expenses which are incidental to the purchase or sale of an investment are charged to the capital return column of the Statement of Comprehensive Income and allocated to other capital reserves. All other operating expenses are charged to the revenue return column of the Statement of Comprehensive Income.

(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 year. 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 Group's liability for current tax is calculated using the effective tax rate of corporation tax for the accounting period.

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 are not liable for taxation on capital gains.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the 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) 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 dealt with in the Statement of Changes in Equity.

1 Accounting policies (continued)

(i) Foreign currency

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

Transactions recorded in overseas currencies during the year are translated into sterling at the appropriate daily exchange rates. Monetary assets and liabilities and equity investments held at fair value through profit or loss that are denominated in overseas currencies at the balance sheet date are translated into sterling at the exchange rates ruling at that date. Exchange gains and losses on investments held at fair value through profit or loss are included within "Gains or losses on investments held at fair value through profit or loss".

(j) 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.

(k) Bank borrowings

Interest-bearing bank loans and overdrafts are recorded initially at fair value, being the proceeds received, net of direct issue costs. They are subsequently measured at amortised cost. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the 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.

(l) Repurchase of ordinary shares

The costs of repurchasing ordinary shares including related stamp duty and transaction costs are taken directly to equity and dealt with in the Statement of Changes in Equity. Share repurchase transactions are accounted for on a trade date basis. The nominal value of ordinary share capital repurchased and cancelled is transferred out of called up share capital and into the capital redemption reserve.

(m) Capital reserves

The following are accounted for in the "Capital reserve arising on investments sold":

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

The following are accounted for in the "Capital reserve arising on investments held":

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

(n) 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 judgments about carrying values of assets and liabilities that are not readily apparent from other sources.

The only estimates and assumptions that may cause material adjustment to the carrying value of assets and liabilities relate to the valuation of unquoted investments. These are valued in accordance with the techniques set out in note 1(c). At the year end, unquoted investments represent 6.2% of net assets (2011: 7.3%). These comprise the entirety of the Group's Level 3 investments in Note 15.

1 Accounting policies (continued)

(o) Operating segments

Under IFRS 8, operating segments are considered to be the 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 Fund 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 Group has one operating segment, being the Parent Company's activity of investing in shares and securities primarily for capital appreciation in accordance with the Company's published investment objective. Its wholly owned subsidiary, TREG Finance Limited, exists to trade in securities to enhance the Group's returns but has not entered into any such transactions in recent years.

An analysis of investment activity by country has been provided in the Investment Activity table on page 9. Further analyses of expenses, investment gains or losses, profit and other assets and liabilities by country have not been given as either it is not possible to prepare such information in a meaningful way or the results are not considered to be significant.

2 Investment income

	2012 £'000	2011 £'000
Overseas dividend income from listed investments	**4,722**	2,979

All dividend income derived from investments in Continental Europe.

3 Other income

	2012 £'000	2011 £'000
Bank interest	**2**	18
Underwriting commission (allocated to revenue)*	**–**	50
	2	68

*The Company was not required to take up any shares in respect of its underwriting commitments in this or the previous year.

4 Management fees

	2012 Revenue return £'000	**2012 Capital return £'000**	**2012 Total £'000**	2011 Revenue return £'000	2011 Capital return £'000	2011 Total £'000
Management fees	**190**	**761**	**951**	254	1,016	1,270

A summary of the terms of the Management Agreement is given on page 21 in the Report of the Directors. No performance fee was earned in respect of the year to 30 June 2012 (2011: £nil).

5 Other operating expenses	2012 £'000	2011 £'000
Auditors' remuneration:		
– audit services relating to the Group and Parent Company	**24**	23
– audit services relating to the subsidiary undertaking	**1**	1
Directors' emoluments (see Directors' Remuneration Report on page 17)	**121**	121
Other expenses payable to the management company*	**25**	26
Custody fees	**115**	121
Printing	**30**	41
AIC fee	**24**	25
Irrecoverable VAT	**23**	34
Other expenses	**149**	159
	512	551

*Other expenses payable to the management company relate to marketing services.

6 Finance costs	2012 Revenue return £'000	2012 Capital return £'000	2012 Total £'000	2011 Revenue return £'000	2011 Capital return £'000	2011 Total £'000
Bank overdraft interest	**87**	**350**	**437**	27	108	135

7 Taxation	2012 Revenue return £'000	2012 Capital return £'000	2012 Total £'000	2011 Revenue return £'000	2011 Capital return £'000	2011 Total £'000
a Analysis of charge in year						
Foreign withholding taxes	**709**	**–**	**709**	502	–	502
Overseas tax reclaimable	**(255)**	**–**	**(255)**	(216)	–	(216)
Total current tax for the year (see note 7b)	**454**	**–**	**454**	286	–	286

7 Taxation (continued)

b Factors affecting tax charge for the year

The standard rate of Corporation Tax in the UK changed from 26% to 24% with effect from 1 April 2012. Accordingly, the Company's profits for this accounting period are taxed at an effective rate of 25.5%.

The tax assessed for the year ended 30 June 2012 is lower than the effective rate of corporation tax of 25.5% (2011: 27.5%). The differences are explained below:

	2012 Revenue return £'000	2012 Capital return £'000	2012 Total £'000	2011 Revenue return £'000	2011 Capital return £'000	2011 Total £'000
Net profit/(loss) on ordinary activities before taxation	**3,935**	**(78,630)**	**(74,695)**	2,215	68,988	71,203
Corporation tax at 25.5% (2011: 27.5%)	**1,003**	**(20,050)**	**(19,047)**	609	18,972	19,581
Effects of:						
Gains/(losses) on investments held not taxable	**–**	**19,767**	**19,767**	–	(19,281)	(19,281)
Capital expenses unutilised for tax purposes	**–**	**283**	**283**	–	309	309
Non-taxable dividends	**(1,204)**	**–**	**(1,204)**	(819)	–	(819)
Overseas tax	**454**	**–**	**454**	286	–	286
Disallowable expenses	**3**	**–**	**3**	20	–	20
Losses available to be utilised	**198**	**–**	**198**	190	–	190
Tax charge	**454**	**–**	**454**	286	–	286

c Provision for deferred taxation

No provision for deferred taxation has been made in the current year or in the prior year. Due to the Company's tax status as an investment trust and the intention to continue meeting the conditions required to obtain approval of such status in the foreseeable future, the Company has not provided deferred tax on any capital gains arising on the revaluation or disposal of investments.

d Factors that may affect future tax charges

The Group has not recognised deferred tax assets of £1,960,000 (2011: £1,633,000) arising as a result of loan relationship deficits and excess management expenses. These expenses will only be utilised if the Group has profits chargeable to corporation tax in the future.

8 Earnings/(loss) per ordinary share

The earnings per ordinary share figure is based on the net loss for the year of £75,149,000 (2011: profit of £70,917,000) and on the weighted average number of ordinary shares in issue during the year of 50,489,161 (2011: 50,965,518).

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.

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8 Earnings/(loss) per ordinary share (continued)

	2012 £'000	2011 £'000
Net revenue profit	**3,481**	1,929
Net capital (loss)/profit	**(78,630)**	68,988
Net (loss)/profit	**(75,149)**	70,917
Weighted average number of ordinary shares in issue during the year	**50,489,161**	50,965,518

	Pence	Pence
Revenue earnings per ordinary share	**6.89**	3.79
Capital (loss)/earnings per ordinary share	**(155.73)**	135.36
Total (loss)/earnings per ordinary share	**(148.84)**	139.15

9 Dividends

	2012 £'000	2011 £'000
Amounts recognised as distributions to equity holders in the year:		
Final dividend of 3.60p and special dividend of 0.65p per ordinary share for the year ended 30 June 2011 (2011: final dividend of 3.40p and special dividend of 0.85p per ordinary share for the year ended 30 June 2010)	**2,152**	2,178
	2,152	2,178

The final dividend of 3.60p and the special dividend of 0.65p per ordinary share in respect of the year ended 30 June 2011 were paid on 11 November 2011 to shareholders on the register of members at the close of business on 14 October 2011. The total dividend paid amounted to £2,152,000.

Subject to approval at the AGM in November 2012, the proposed final dividend of 4.50p and a special dividend of 1.50p per ordinary share will be paid on 9 November 2012 to shareholders on the register of members at the close of business on 5 October 2012.

The proposed final and special dividends for the year ended 30 June 2012 have not been included as a liability in these financial statements. Under IFRS, these dividends are not recognised until approved by the shareholders.

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

	Consolidated 2012 £'000	Consolidated 2011 £'000	Company 2012 £'000	Company 2011 £'000
Revenue available for distribution by way of dividends for the year	**3,481**	1,929	**3,482**	2,430
Proposed total dividend for the year ended 30 June 2012 – 6.00p (2011: 4.25p) (comprising a final dividend of 4.50p and a special dividend of 1.50p) (based on 49,975,897 shares in issue at 21 September 2012)	**(2,999)**	(2,152)	**(2,999)**	(2,152)
Revenue surplus/(deficit)	**482**	(223)	**483**	278

For Section 1158 purposes the Company's undistributed revenue represents 10.2% of the income from investments of £4,722,000.

10 Investments held at fair value through profit or loss

a Consolidated

	£'000
Cost at 1 July 2011	**249,664**
Investment holding gains at 1 July 2011	**21,136**
Valuation at 1 July 2011	**270,800**
Movements in the year:	
Acquisitions at cost	**117,726**
Disposals at cost	**(102,483)**
Movements in investment holding gains	**(83,500)**
Valuation at 30 June 2012	**202,543**
Cost at 30 June 2012	**264,907**
Investment holding losses	**(62,364)**
Valuation at 30 June 2012	**202,543**

Included in the total investments are unlisted investments shown at the directors' fair valuation of £11,439,000 (2011: £19,355,000).

At 30 June 2012 no convertible or fixed interest securities were held in the portfolio (2011: nil).

b Company

	Investments £'000	Subsidiary undertaking £'000	Total £'000
Cost at 1 July 2011	249,664	–	**249,664**
Investment holding gains at 1 July 2011	21,136	987	**22,123**
Valuation at 1 July 2011	270,800	987	**271,787**
Movements in the year:			
Acquisitions at cost	117,726	–	**117,726**
Disposals at cost	(102,483)	–	**(102,483)**
Movements in investment holding gains	(83,500)	(1)	**(83,501)**
Valuation at 30 June 2012	202,543	986	**203,529**
Cost at 30 June 2012	264,907	–	**264,907**
Investment holding (losses)/gains	(62,364)	986	**(61,378)**
Valuation at 30 June 2012	202,543	986	**203,529**

Included in the total investments are unlisted investments shown at the directors' fair valuation of £12,425,000 (2011: £20,342,000).

Purchase and sale transaction costs for the year ended 30 June 2012 were £214,000 and £141,000 respectively (2011: transaction costs of purchases £121,000; transaction costs of sales £186,000). These comprise mainly stamp duty and commission.

Notes to the Financial Statements

continued

10 Investments held at fair value through profit or loss (continued)

c Total capital (losses)/gains from investments	2012 £'000	2011 £'000
Realised gains based on historical cost	**4,462**	5,408
(Less)/add revaluation (gains)/losses recognised in previous years	**(12,123)**	23,886
(Losses)/gains on investments sold in year on carrying value at the previous balance sheet date	**(7,661)**	29,294
Revaluation of investments held at 30 June	**(71,377)**	40,716
Exchange gains	**1,519**	102
	(77,519)	70,112

A geographical analysis of capital losses is shown in the Investment Activity table on page 9.

11 Subsidiary undertaking and other investee company information

TREG Finance Limited

The Company has an investment in the entire issued ordinary share capital, fully paid, of £2 in its wholly owned subsidiary undertaking, TREG Finance Limited, which is registered in England and Wales and operates in the United Kingdom as an investment dealing company. The investment is stated in the Company's financial statements at the net asset value, which is considered by the directors to equate to fair value. The amount due to the subsidiary company at 30 June 2012 amounted to £984,000 (2011: £985,000). This payable has been eliminated on consolidation.

21 Centrale Partners III

21 Centrale Partners III is in the top ten largest investments as at 30 June 2012. It is valued at £5,169,000 (2011: £11,048,000), which includes all classes of investment. The Company owns 3.02% of its share capital, which was acquired at a cost of £5,531,000. The following information has been obtained from the most recently available audited accounts of the partnership for the year ended 31 December 2011:

Profit per share	€0.64
Dividend per share	Nil
Net assets attributable to the interest held by the Company	€8,274,000

Brainlab

Brainlab, a medical technology company, is in the top ten largest investments as at 30 June 2012. It is valued at £5,972,000 (2011: £7,054,000), which includes all classes of investment. The Company owns 6.9% of Brainlab's share capital, which was acquired at a cost of £10,565,000. The valuation of the holding in Brainlab is considered with reference to a number of valuation measures, both absolute and relative to a basket of listed peers. The following information has been obtained from the most recently available audited accounts of Brainlab for the year ended 30 September 2011:

Profit per share	€0.65
Dividend per share	€0.32
Net assets attributable to the ordinary shares held by the Company	€3,996,000

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12 Substantial interests

The Group has interests of 3% or more of any class of capital in 8 investee companies. At 30 June 2012 no one company represented more than 4% of the investments. These investments are not considered by the directors to be significant in the context of these financial statements.

13 Receivables

	Consolidated 2012 £'000	Consolidated 2011 £'000	**Company 2012 £'000**	Company 2011 £'000
Securities sold for future settlement	**1,452**	2,005	**1,452**	2,005
Withholding tax recoverable	**370**	376	**370**	376
Prepayments and accrued income	**204**	147	**204**	147
	2,026	2,528	**2,026**	2,528

14 Payables

	Consolidated 2012 £'000	Consolidated 2011 £'000	**Company 2012 £'000**	Company 2011 £'000
Securities purchased for future settlement	**293**	68	**293**	68
Amounts due to subsidiary undertaking	**–**	–	**984**	985
Accruals and deferred income	**373**	489	**372**	488
Unrealised loss on forward exchange contracts	**124**	–	**124**	–
	790	557	**1,773**	1,541

15 Risk management policies and procedures

As an investment trust the Company invests in equities and other investments for the long term so as to secure its investment objectives as stated on the inside front cover and in the business review. In pursuing its investment objective, the Group is exposed to a variety of financial risks that could result in either a reduction in the Group's net assets or a reduction in the profits available for distribution by way of dividends.

These financial risks: market risk (comprising market price risk, currency risk and interest rate risk), liquidity risk and credit risk, and the directors' approach to the management of these risks, are set out below. The Board of directors and the Manager co-ordinate the Group's risk management.

The Board determines the objectives, policies and processes for managing the risks, and these are set out below under the relevant risk category. The policies for the management of risk have not changed from the previous accounting period.

15.1 Market risk

The fair value of a financial instrument held by the Group may fluctuate due to changes in market prices. Market risk comprises market price risk (see note 15.1.1), currency risk (see note 15.1.2) and interest rate risk (see note 15.1.3). 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.

Notes to the Financial Statements

continued

15 Risk management policies and procedures (continued)

15.1.1 Market price risk

Market price risks (ie changes in market prices other than those arising from interest rate risk or currency risk) may affect the fair value of the quoted and unquoted investments.

Management of the risk

The Board of directors manages the risks inherent in the investment portfolio by ensuring full and timely reporting of relevant information from the Manager. Investment performance is reviewed at each Board meeting. The Board monitors the Manager's compliance with the Group's objectives, and is directly responsible for investment strategy and asset allocation, including as between countries and economies.

The Group's exposure to changes in market prices on equity investments was £202,543,000 (2011: £270,800,000).

Concentration of exposure to market price risk

An analysis of the Group's investment portfolio is shown on pages 14 and 15. There is a concentration of exposure to France, Germany and Switzerland though 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

Based on the Group's investments at each balance sheet date, an increase or decrease of 20% (2011: 20%) in market prices would increase or decrease revenue return after tax by £41,000 (2011: £54,000), capital return after tax by £40,347,000 (2011: £53,943,000) and total profit after tax and total equity by £40,306,000 (2011: £53,889,000). This level of change is considered to be reasonable based on current market conditions.

15.1.2 Currency risk

A proportion of the Group's assets, liabilities, income and expenses are denominated in currencies other than sterling (the Group's functional currency and presentational currency). As a result, movements in exchange rates may affect the sterling value of those items.

Management of the risk

The Manager monitors the Group's exposure to foreign currencies on a daily basis and reports to the Board at each Board meeting. The Manager measures the risk to the Group of the foreign currency exposure by considering the effect on the Group's net asset value and total return of a movement in the exchange rate to which the Group's assets, liabilities, income and expenses are exposed.

Foreign currency borrowing and financial instruments may be used to limit the Group's exposure to future changes in exchange rates which might otherwise adversely affect the value of the portfolio of investments. Borrowings are limited to 30% of net asset value.

Investment income denominated in foreign currencies is converted into sterling on receipt. The Group does not use financial instruments to mitigate the currency exposure in the period between the time that income is included in the financial statements and its receipt.

Foreign currency exposure

The fair values of the Group's monetary items that have foreign currency exposure at year end are shown below. Where the Group's equity investments (which are not monetary items) are denominated in a foreign currency, they have been included separately in the analysis so as to show the overall level of exposure.

15 Risk management policies and procedures (continued)

2012	**Euro £'000**	**US$ £'000**	**Swiss Franc £'000**	**Other £'000**
Receivables (due from brokers, dividends and other income receivable)	**1,336**	**–**	**62**	**605**
Payables (due to brokers, accruals and other creditors)	**(409)**	**–**	**–**	**(7)**
Total foreign currency exposure on net monetary items	**927**	**–**	**62**	**598**
Investments	**153,498**	**1,117**	**25,612**	**22,316**
Total net foreign currency exposure	**154,425**	**1,117**	**25,674**	**22,914**

2011	Euro £'000	US$ £'000	Swiss Franc £'000	Other £'000
Receivables (due from brokers, dividends and other income receivable)	1,114	–	659	608
Cash at bank and on deposit less overdrafts	(854)	–	1	399
Payables (due to brokers, accruals and other creditors)	(68)	–	–	–
Total foreign currency exposure on net monetary items	192	–	660	1,007
Investments	191,807	2,835	40,150	36,008
Total net foreign currency exposure	191,999	2,835	40,810	37,015

The above amounts are not representative of the exposure to risk during each year, as levels of monetary foreign currency exposure change significantly throughout the year.

Foreign currency sensitivity

The following tables illustrate the sensitivity of the total profit after tax for the year and the net assets in regard to movements in the Company's foreign currency financial assets and financial liabilities caused by changes in the exchange rates for the Euro/Sterling, US Dollar/Sterling, Swiss Franc/Sterling and Other/Sterling.

It assumes the following changes in exchange rates:
Euro/Sterling +/- 10% (2011: 10%). US Dollar/Sterling +/- 10% (2011: 10%).
Swiss Franc/Sterling +/- 10% (2011: 10%). Other/Sterling +/- 10% (2011: 10%)

These percentages are deemed reasonable based on the average market volatility in exchange rates in the previous 12 months. The sensitivity analysis is based on the Group's foreign currency financial assets and financial liabilities held at each balance sheet date.

15 Risk management policies and procedures (continued)

The impact on the total profit after tax and the year end net assets of a depreciation in the year end exchange rate for Sterling against the currencies shown would have been as follows:

	2012				2011			
	Euro £'000	US$ £'000	Swiss Franc £'000	Other £'000	Euro £'000	US$ £'000	Swiss Franc £'000	Other £'000
Profit after tax								
Revenue return	**335**	**6**	**71**	**47**	189	22	35	37
Capital return	**16,801**	**123**	**2,834**	**2,654**	21,226	315	4,443	3,985
Change to profit after tax for the year	**17,136**	**129**	**2,905**	**2,701**	21,415	337	4,478	4,022
Impact on net assets	**17,136**	**129**	**2,905**	**2,701**	21,415	337	4,478	4,022

The impact on the total profit after tax and the year end net assets of an appreciation in the year end exchange rate for Sterling against the currencies shown would have been as follows:

	2012				2011			
	Euro £'000	US$ £'000	Swiss Franc £'000	Other £'000	Euro £'000	US$ £'000	Swiss Franc £'000	Other £'000
Profit after tax								
Revenue return	**(274)**	**(5)**	**(59)**	**(38)**	(155)	(17)	(29)	(30)
Capital return	**(13,747)**	**(102)**	**(2,318)**	**(2,171)**	(17,367)	(257)	(3,635)	(3,260)
Change to profit after tax for the year	**(14,021)**	**(107)**	**(2,377)**	**(2,209)**	(17,522)	(274)	(3,664)	(3,290)
Impact on net assets	**(14,021)**	**(107)**	**(2,377)**	**(2,209)**	(17,522)	(274)	(3,664)	(3,290)

In the opinion of the directors, the above sensitivity analyses are not representative of the year as a whole, since the level of exposure changes frequently as part of the currency risk management process used to meet the Group's objective.

15.1.3 Interest rate risk

Interest rate movements may affect the level of interest receivable from cash at bank and on deposit, and the interest payable on the Group'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 Group finances part of its activities through borrowings at levels approved and monitored by the Board. Derivative contracts are not used to hedge against the exposure to interest rate risk.

Interest rate exposure
The exposure of financial assets and liabilities to floating interest rate risk can be found on the balance sheet under the headings "Cash and cash equivalents" and "Bank overdrafts". 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 and repaid. The Group does not have any fixed interest rate exposure.

Interest received on cash balances or paid on the bank overdraft is at a margin over LIBOR or its foreign currency equivalent (2011: same).

15 Risk management policies and procedures (continued)

Interest rate sensitivity

The impact on the total profit after tax and the year end net assets of an increase or decrease of 100 basis points (2011: 100 basis points) in interest rates would have been as follows:

	Increase in rates 2012 £'000	**Decrease in rates 2012 £'000**	Increase in rates 2011 £'000	Decrease in rates 2011 £'000
Statement of Comprehensive Income – Profit after tax				
Revenue return	**(38)**	**38**	(14)	14
Capital return	**(150)**	**150**	(70)	70
Change to net profit and net assets	**(188)**	**188**	(84)	84

This level of change is considered to be reasonable based on current market conditions.

In the opinion of the directors, these sensitivity analyses are not representative of the year as a whole, since exposure changes as investments are made, and borrowings are drawn down or repaid throughout the year.

15.2 Liquidity risk

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

Management of the risk

Liquidity risk is not significant as the majority of the Group's assets are investments in quoted securities that are readily realisable. During the year the Group had an unsecured multi-currency borrowing facility of £20,000,000 with JPMorgan Chase Bank NA, the Company's custodian (2011: same). Since the year end the Company has changed custodian to HSBC and the facility with JP Morgan has been cancelled and replaced with a multi-currency overdraft facility agreement for £30,000,000 with HSBC.

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 generally remain fully invested and that short term borrowings be used to manage short term cash requirements.

Liquidity risk exposure

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

	2012 3 months or less £'000	**2012 Total £'000**	2011 3 months or less £'000	2011 Total £'000
Current liabilities:				
Borrowings under the custodian overdraft facility	**18,776**	**18,776**	8,760	8,760
Amounts due to brokers and accruals	**790**	**790**	557	557
	19,566	**19,566**	9,317	9,317

15 Risk management policies and procedures (continued)

15.3 Credit risk

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

Management of the risk

Credit risk is managed as follows:

– transactions involving derivatives are entered into only with investment banks, the credit rating of which is taken into account so as to minimise the risk to the Group of default;
– investment transactions are carried out with a large number of approved brokers, whose credit-standard is reviewed periodically by the Manager, and limits are set on the amount that may be due from any one broker;
– cash at bank is held only with reputable banks and is subject to continual review.

None of the Group's financial assets or liabilities is secured by collateral or other credit enhancements.

Outstanding settlements are subject to credit risk. Credit risk is mitigated by the Group through its decision to transact with counterparties of high credit quality. The Group only buys and sells investments through brokers which are approved counterparties, thus minimising the risk of default during settlement. The credit ratings of brokers are reviewed periodically by the Manager, and limits are set on the amount that may be due from any one broker.

The Group is also exposed to credit risk through the use of banks for its cash position. Bankruptcy or insolvency of banks may cause the Group's rights with respect to cash held by banks to be delayed or limited. The Group's cash balances are held by the custodian, JPMorgan Chase Bank NA. The directors believe the counterparty is of high credit quality, therefore the Group has minimal exposure to credit risk.

Credit risk exposure

The table below summarises the maximum credit risk exposure of the Group as at year end:

	2012 £'000	2011 £'000
Receivables:		
Securities sold for future settlement	**1,452**	2,005
Accrued income	**181**	125
Cash at bank	**3**	403
	1,636	2,533

15.4 Fair values of financial assets and financial liabilities

Financial assets and financial liabilities are either carried in the balance sheet at their fair value (investments) or the balance sheet amount is a reasonable approximation of fair value (due from brokers, dividends and interest receivable, due to brokers, accruals, cash at bank and bank overdrafts).

15.5 Fair value hierarchy disclosures

The table below sets out the fair value measurements using the IFRS 7 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 included within Level 1.
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 the accounting policies note on page 38.

15 Risk management policies and procedures (continued)

Fair value hierarchy	**Group 2012 £'000**	**Company 2012 £'000**
Equity Investments		
Level 1	**191,104**	**191,104**
Level 2	**–**	**–**
Level 3	**11,439**	**12,425**
Total	**202,543**	**203,529**

Level 3 represents the Group's unquoted investments. A reconciliation of fair value movements within Level 3 is set out below.

Level 3 investments at fair value through profit or loss	**Group 2012 £'000**	**Company 2012 £'000**
Opening balance	**19,355**	**20,342**
Acquisitions	**137**	**137**
Disposal proceeds	**(4,675)**	**(4,675)**
	14,817	**15,804**
Total gains included in the Consolidated Statement of Comprehensive Income		
– on assets sold	**3,301**	**3,301**
– on assets held at the year end	**(6,679)**	**(6,680)**
	(3,378)	**(3,379)**
Closing balance	**11,439**	**12,425**

Fair value hierarchy	Group 2011 £'000	Company 2011 £'000
Equity Investments		
Level 1	251,445	251,445
Level 2	–	–
Level 3	19,355	20,342
Total	270,800	271,787

A reconciliation of fair value movements within Level 3 is set out below.

Level 3 investments at fair value through profit or loss	Group 2011 £'000	Company 2011 £'000
Opening balance	18,077	19,565
Acquisitions	597	597
Disposal proceeds	(1,268)	(1,268)
Transfers into Level 3*	490	490
	17,896	19,384
Total gains included in the Consolidated Statement of Comprehensive Income		
– on assets sold	380	380
– on assets held at the year end	1,079	578
	1,459	958
Closing balance	19,355	20,342

*Safwood was written down to zero and was transferred into Level 3 in 2011.

15 Risk management policies and procedures (continued)

15.5 Fair value hierarchy disclosures (continued)

The total value of unquoted investments as at 30 June 2012 was £11,439,000 (2011: £19,355,000). A list of unquoted investments is shown on page 12.

15.6 Capital management policies and procedures

The Group's capital management objectives are:

- to ensure that it will be able to continue as a going concern; and
- to maximise the income and capital return to its equity shareholders through an appropriate balance of equity capital and debt.

The portfolio includes unquoted investments which total 5.9% of the total portfolio. These unquoted investments include limited liability partnerships (where the valuations are based on accounts produced by those companies) and unquoted holdings (which are held at directors' valuations).

The Group's capital at 30 June 2012 comprised its equity share capital, reserves and debt that are shown in the balance sheet at a total of £203,782,000 (2011: £273,174,000).

The Board, with the assistance of the Manager, monitors and reviews the broad structure of the Group's capital on an ongoing basis. This review includes:

- the need to buy back equity shares for cancellation, which takes account of the difference between the net asset value per share and the share price (ie the level of share price discount or premium);
- the need for new issues of equity shares;
- the extent to which revenue in excess of that which is required to be distributed should be retained.

The Company's policies and processes for managing capital are unchanged from the preceding accounting period.

The Company is subject to the following externally imposed capital requirements:

- as a public company, the Company has a minimum share capital of £50,000;
- in order to be able to pay dividends out of profits available for distribution by way of dividends, the Company has to be able to meet one of the two capital restriction tests imposed on investment companies by law.

These requirements are unchanged since last year, and the Company has complied with them.

16 Called up share capital (Group & Company)

	2012 number	2012 £'000	2011 number	2011 £'000
Allotted, issued and fully paid				
Ordinary shares of 12.5p	**49,975,897**	**6,247**	50,634,229	6,329

During the year 658,332 (2011: 993,060) ordinary shares were bought back for cancellation at a cost of £2,107,000 (2011: £3,802,000). No shares were bought back between 30 June 2012 and 21 September 2012.

17 Share premium account

	Group and Company £'000
At 1 July 2011 and at 30 June 2012	**115,451**

18 Capital redemption reserve and other capital reserves

a Consolidated	Capital redemption reserve £'000	Capital reserve arising on revaluation of investments held £'000	Capital reserve arising on investments sold £'000	Total £'000
At 1 July 2011	**13,849**	21,136	91,336	**112,472**
Transfer on disposal of investments (see note 10c)	**–**	(12,123)	12,123	**–**
Capital losses for the year	**–**	(71,377)	(7,661)	**(79,038)**
Expenses and finance costs charged to capital after tax relief	**–**	–	(1,111)	**(1,111)**
Net gain on foreign exchange	**–**	–	1,519	**1,519**
Buy-backs of ordinary shares	**82**	–	(2,107)	**(2,107)**
At 30 June 2012	**13,931**	**(62,364)**	**94,099**	**31,735**

The capital reserve arising on revaluation of investments held at 30 June 2012 includes a loss of £19,153,000 in respect of the revaluation of unquoted investments (2011: loss of £12,474,000).

b Company	Capital redemption reserve £'000	Capital reserve arising on revaluation of investments held £'000	Capital reserve arising on investments sold £'000	Total £'000
At 1 July 2011	**13,849**	22,123	91,405	**113,528**
Transfer on disposal of investments (see note 10c)	**–**	(12,123)	12,123	**–**
Capital losses for the year	**–**	(71,378)	(7,661)	**(79,039)**
Expenses and finance costs charged to capital after tax relief	**–**	–	(1,111)	**(1,111)**
Net gain on foreign exchange	**–**	–	1,519	**1,519**
Buy-backs of ordinary shares	**82**	–	(2,107)	**(2,107)**
At 30 June 2012	**13,931**	**(61,378)**	**94,168**	**32,790**

The capital reserve arising on revaluation of investments held at 30 June 2012 includes a loss of £18,167,000 in respect of the revaluation of unquoted investments (2011: loss of £11,487,000).

19 Retained earnings – revenue reserve

	2012 Consolidated £'000	2011 Consolidated £'000	2012 Company £'000	2011 Company £'000
At 1 July	**16,313**	16,562	**15,257**	15,005
Ordinary dividends paid	**(2,152)**	(2,178)	**(2,152)**	(2,178)
Revenue profit for the year	**3,481**	1,929	**3,482**	2,430
At 30 June	**17,642**	16,313	**16,587**	15,257

As permitted by Section 408 of the Companies Act 2006, the Company has not presented its own Statement of Comprehensive Income. The loss after taxation of the Company amounted to £75,149,000 (2011: profit of £70,917,000).

Notes to the Financial Statements
continued

20 Net asset value per ordinary share

The net asset value per ordinary share is based on the net assets attributable to the ordinary shares of £185,006,000 (2011: £264,414,000) and on the 49,975,897 ordinary shares in issue at 30 June 2012 (2011: 50,634,229). The Company has no securities in issue that could dilute the net asset value per ordinary share.

The movements during the year in assets attributable to the ordinary shares were as follows:

	2012 £'000	2011 £'000
Net assets attributable to ordinary shares at 1 July	**264,414**	199,477
Buy-backs of ordinary shares	**(2,107)**	(3,802)
(Loss)/profit for the year	**(75,149)**	70,917
Dividends paid in the year	**(2,152)**	(2,178)
Total net assets at 30 June	**185,006**	264,414

21 Capital commitments and contingent liabilities

Capital commitments

At 30 June 2012 there were capital commitments of £575,000 (2011: £951,000) in respect of the Company's holdings in limited partnerships.

Contingent liabilities

At 30 June 2012 there were no contingent liabilities in respect of sub underwriting participations (2011: same).

22 Transactions with the Manager

Under the terms of an agreement dated 24 February 1995, the Company has appointed wholly owned subsidiaries of Henderson Global Investors Limited to provide investment management, accounting, administration and company secretarial services. Henderson has contracted with BNP Paribas Securities Services to provide accounting and administration services.

With effect from 1 July 2007, VAT is no longer charged on management fees or performance fees.

Details of the arrangements for these services are given on pages 20 and 21 in the Report of the Directors. The total of the fees payable to Henderson under this agreement in respect of the year ended 30 June 2012 was £951,000 (2011: £1,270,000), of which £232,000 was outstanding at 30 June 2012 (2011: £331,000).

In addition to the above services, Henderson has provided the Company with marketing services. The total fees payable for these services for the year ended 30 June 2012 amounted to £25,000 (excluding VAT) (2011: £26,000), of which £4,000 (excluding VAT) was outstanding at 30 June 2012 (2011: £9,000).

The compensation payable to key management personnel in respect of short term employment benefits was £121,000 (2011: £121,000). In practice this disclosure relates wholly to the fees payable to the directors in respect of the year; the directors are all non-executive and receive no other compensation. The Directors' Remuneration Report on page 17 provides details. The Company has no employees.

General Shareholder Information

Release of results
The half year results are announced in February. The full year results are announced in September.

Annual General Meeting
The AGM will be held in London at 12.30 pm on 5 November 2012.

Dividend payment date
Subject to shareholder approval at the AGM, a dividend will be paid on the ordinary shares on 9 November 2012.

Dividend payments
Dividends can be paid to ordinary shareholders by means of BACS (Bankers' Automated Clearing Services); mandate forms for this purpose are available from the Registrar. Alternatively, shareholders can write to the Registrar (the address is given on page 59) 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, The Times and the Daily Telegraph. The Financial Times also shows figures for the estimated net asset values and the discounts/premiums applicable.

Share price information
The ISIN/SEDOL (Stock Exchange Daily Official List) code numbers of the Company's ordinary shares are GB0009066928/0906692. Other sources include Bloomberg (TRG LN) and Reuters (TRG.L).

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.

Investors in the Henderson and Halifax Share Dealing products receive all shareholder communications. A voting instruction form is provided to facilitate voting at general meetings of the Company.

Performance details
Details of the Company's performance are updated daily on the Company's website: **www.treuropeangrowth.com**

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

You can contact the Registrar, Equiniti, which has installed textphones to allow speech and hearing impaired people who have their own textphone to contact them directly by ringing 0870 600 3950 without the need for an intermediate operator. Specially trained operators are available during normal business hours to answer queries via this service.

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

General Shareholder Information
continued

Glossary of Terms

Discount

The amount by which the market price per share of an investment trust is lower than the net asset value per share. The discount is normally expressed as a percentage of the net asset value per share. The Company publishes a net asset value (NAV) per share 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 includes current financial year revenue items. Prior to July 2008 the AIC formula, which had been used by the Company, excluded current financial year revenue items.

Gearing

Gearing is defined as investments as a percentage of net assets. The effect of gearing is to magnify the return on capital and revenue.

Net asset value

The value of total assets less liabilities. The net asset value divided by the number of shares in issue produces the net asset value per share.

Premium

The amount by which the market price per share of an investment trust exceeds the net asset value per share. The premium is normally expressed as a percentage of the net asset value per share.

Warning to Shareholders

Many companies are 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, Equiniti, 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 the Company Secretary at the number provided on page 59.

Directors and Other Information

Directors

Audley Twiston-Davies (Chairman)
Christopher Casey
Robert Jeens
Andrew Martin Smith
Alexander Mettenheimer (from 1 July 2011)
Jane Tufnell (from 1 September 2012)

Registered Office

201 Bishopsgate
London EC2M 3AE
Telephone: 020 7818 1818
www.treuropeangrowth.com

Registered Number

Registered as an investment company in England and Wales number 2520734

Investment Manager

Henderson Global Investors Limited, authorised and regulated by the Financial Services Authority represented by:
Ollie Beckett
Simon Savill

Secretary

Henderson Secretarial Services Limited represented by David Rice ACIS

Registrar

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
Telephone: 0870 601 5366

Independent Auditors

PricewaterhouseCoopers LLP
7 More London
Riverside
London SE1 2RT

Stockbrokers

Winterflood Investment Trusts
The Atrium Building
Cannon Bridge
25 Dowgate Hill
London EC4R 2GA

Halifax Share Dealing Limited

Trinity Road
Halifax
West Yorkshire HX1 2RG
Telephone: 0845 722 5522
Email: communications@halifax.co.uk
Website: www.halifax.co.uk

Henderson ISA Holders

ISA Department
Henderson Global Investors
PO Box 10665
Chelmsford CM99 2BF
Telephone: 0800 856 5656

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The Association of Investment Companies

London Stock Exchange
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