Registered number: 25526

The Henderson Smaller Companies Investment Trust plc

Report & Accounts for the year ended 31 May 2005

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Cover picture: Anup Shah/naturepl.com

The objective of The Henderson Smaller Companies Investment Trust plc is to maximise shareholders' total returns by investing in smaller companies that are listed in the United Kingdom. Our portfolio of investments is managed by a team of specialists at Henderson Global Investors. At 31 May 2005 there were 125 holdings with a market value of £245 million. As an investment trust, we are exempt from tax on the capital gains arising on the investments.

Investment selection	The investment selection process seeks, by rigorous research, to identify high-quality smaller companies with strong growth potential. Generally new investments are made in constituents of the benchmark index. Investments may continue to be held when the underlying companies grow out of the smaller companies sector but strong selling disciplines are applied regardless of the size of the entity.
Benchmark	Hoare Govett Smaller Companies (excluding investment companies) Index.*
Investment Manager	The Board has appointed Henderson Global Investors to manage the investments and to provide the related administrative services.
Independent Board	The directors, who are independent of the Investment Manager, meet regularly to consider investment strategy and to monitor the performance of the Company.
The shares are easy to buy	Details of how the Company's shares can be bought through the Henderson Investment Trust Share Plan and the Henderson ISA are given on the inside back cover.
Website	Information about the Company can be found on the website www.itshenderson.com

*until 1 June 2003 the benchmark was the FTSE SmallCap (excluding investment companies) Index

Directors

***Dudley Fishburn** (Chairman) is a director of HSBC Bank plc. He is an independent director of Beazley Group plc and Altria Inc. He is 59 and joined the Board in 1996. He was for nine years a Member of Parliament and is a former Treasurer of the National Trust and executive editor of The Economist.

***Sally Davis** is Chief Portfolio Officer for BT plc. She is 51 and joined the Board in 2001. She became Chairman of the Audit Committee in November 2003. A former Vice President of Bell Atlantic and NYNEX, she is a Fellow of University College London.

***Paul Manduca** is 53 and joined the Board in 1987. A former fund manager of the Company, he became successively chairman and chief executive of Touche, Remnant & Co., deputy managing director of Henderson Administration Group plc, chief executive of Threadneedle Asset Management Limited, chief executive of Rothschild Asset Management and chief executive of Deutsche Asset Management Europe. He is a former chairman of the AITC and is currently a non-executive director of Development Securities PLC and other companies.

***James Nelson** is 58 and joined the Board in September 2002. He retired as an executive partner of Graphite Capital in June 2002. He is currently Chairman of PIFC Group Limited and a director of American Opportunity Trust PLC and Intermediate Capital Group PLC. He is a former chairman of the British Venture Capital Association.

***Max Taylor** is Deputy Chairman of Aon Limited. He is 57 and joined the Board in 1993. He was formerly an executive director of Willis Corroon Group plc and was Chairman of Lloyd's from 1998 to 2001.

*All the directors are independent and all are members of the Audit Committee, the Management Engagement Committee and the Nomination Committee. Mrs Davis chairs the Audit Committee. Mr Fishburn chairs the other two committees.

Management

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

Theresa Wat joined Henderson Global Investors in November 2002 as a member of its UK smaller companies team. A chartered accountant, she was formerly a member of the smaller companies team at Morley.

Geoffrey Rice ACIS has acted as company secretary since 1998. He is an authorised representative of Henderson Secretarial Services Limited, the corporate company secretary.

Chairman's statement

Dudley Fishburn

Performance

I am pleased to report that the Company has enjoyed a further year of strong investment performance. The net asset value per share increased by 24%, on a total return basis. By comparison our benchmark index increased by 19%. The gearing provided by our debenture stock has contributed to performance, as has judicious short-term use of our bank facility. Share buy-backs, at an average discount of over 19%, have added to the net asset value of the remaining shares. Nevertheless, the main contribution to our performance continues to be the disciplined and diligent approach of our fund management team at Henderson, Neil Hermon and Theresa Wat.

Continuation vote

The Company's first triennial continuation vote was passed at the Annual General Meeting on 24 September 2004. The clear majority for continuation – the proxy votes received were 3.7 to 1 in favour – indicated that our investors share the Board's confidence in the ability of our fund managers to achieve strong investment performance from the active management of the Company's portfolio.

Revenue and dividend

The revenue account has continued to strengthen. Investment income has risen and, notwithstanding the increase in the management fee and higher borrowing costs, the revenue return per share rose by 23% to 1.44p. We propose a single and final dividend for the year of 1.15p per share, an increase of 15% on that paid last year.

Whilst we shall continue to pay due regard to investment income, capital growth will remain our priority. Our largest variable item of expense, the management fee, is calculated by reference to the value of our investments. If in future the capital value of the portfolio grows more strongly than its income yield – not itself an unwelcome outcome – our ability to distribute earnings to shareholders could be restricted.

Share buy-backs

During the year we bought back thirteen million shares, equivalent to about 11% of those in issue at 31 May 2004. Whilst it is disappointing that the recent demand for investment trust company shares has been weak – particularly after a twelve month period in which we bought back no shares at all – we are pleased to welcome a number of new shareholders to our register. Since the year end we have bought back a further 125,000 shares. We shall seek to renew the Company's authority to buy back its own shares at the Annual General Meeting on 30 September 2005.

Management and performance fees

The fee arrangements with our Investment Manager, Henderson Global Investors Limited, are subject to formal review every three years. The Board has brought forward the negotiations due within this calendar year and is in the process of negotiating revised fee arrangements with Henderson. It expects these to include the introduction of a performance fee. The Board considers it to be essential to shareholders' interests to have in place a fee structure that will enable Henderson to retain our talented and successful fund management team.

Outlook

The stockmarket has recovered strongly from its low point in March 2003 and smaller companies have experienced a significant re-rating over that period. Whilst we do not expect such returns to be repeated in the coming year, we are confident about the general outlook and we expect our fund managers' stock-picking skills to give us relative advantage.

J Dudley Fishburn
Chairman
3 August 2005

Financial highlights

	31 May 2005	31 May 2004
Total net assets	**£217 million**	£198 million
Net asset value per ordinary share	**213.5p**	172.1p
Net asset value per ordinary share on an alternative basis*	**205.6p**	166.8p
Market price per ordinary share	**169.50p**	134.75p
Revenue return per ordinary share	**1.44p**	1.17p
Dividend per ordinary share	**1.15p**	1.00p
Gearing†	**13.0%**	14.7%

*See note 23 on page 31

†Defined here as the total market value of the Group's investments less shareholders' funds as a percentage of shareholders' funds

Performance

Comparative total return figures for periods ended 31 May 2005:

	1 year %	2 years %	3 years %	5 years %	10 years %
The Henderson Smaller Companies Investment Trust plc: net asset value per share	24.5	76.6	19.3	(48.8)	17.0
The Henderson Smaller Companies Investment Trust plc: share price	26.7	78.5	14.5	(49.3)	(2.6)
Hoare Govett Smaller Companies *(excluding investment companies) Index*	19.0	57.6	33.8	30.1	150.0
FTSE SmallCap (excluding investment companies) Index	13.3	43.1	17.6	1.4	102.1
FTSE All-Share Index	16.5	34.7	11.0	(4.2)	107.7

Source: Datastream

Historical record

Year end	Market price per ordinary share in pence	Net asset value per ordinary share in pence	Earnings per ordinary share in pence	Net dividends per ordinary share in pence
31 May 1995	196.0	201.5	4.06	3.90
31 May 1996	236.0	264.4	5.02	3.95
31 May 1997	223.0	261.0	4.15	3.95
31 May 1998	295.5	344.1	3.10	3.95
31 May 1999	243.5	311.8	2.33	3.95
31 May 2000	341.5	423.8	1.14	0.50
31 May 2001	278.0	328.9	(0.34)	0.50
31 May 2002	150.5	181.1	(0.77)	0.50
31 May 2003	96.0	121.8	0.20	0.50
31 May 2004	134.75	172.1	1.17	1.00
31 May 2005	**169.5**	**213.5**	**1.44**	**1.15**

Investment portfolio

at 31 May 2005

	Valuation as at 31 May 2005 £'000	% of portfolio
W S Atkins	11,336	4.62
T & F Informa	9,990	4.07
Bellway	6,816	2.78
Interserve	6,694	2.73
Domino Printing	6,637	2.71
Balfour Beatty	6,465	2.64
Bovis Homes	5,472	2.23
Capital & Regional Properties	4,677	1.91
Westbury	4,650	1.90
WSP	4,462	1.82
10 largest	67,199	27.41
Savills	3,978	1.62
Enodis	3,951	1.61
Grainger Trust	3,781	1.54
Intermediate Capital	3,438	1.40
Topps Tiles	3,425	1.40
Games Workshops	3,320	1.35
Erinaceous	3,180	1.30
Anite	3,150	1.28
Scottish Radio	3,070	1.25
Meggitt	3,069	1.25
20 largest	101,561	41.41
RPS Group	2,965	1.21
Carillion	2,917	1.19
SIG	2,875	1.17
•Sportingbet	2,655	1.08
Carter & Carter	2,618	1.07
BSS Group	2,510	1.02
Greene King	2,492	1.02
Laird	2,482	1.01
Headlam	2,458	1.00
Intec Telecom Systems	2,420	0.99
30 largest	127,953	52.17
Shaftesbury	2,392	0.98
Mouchel	2,323	0.95
Paragon	2,282	0.93
VT Group	2,210	0.90
Chrysalis	2,165	0.88
Go-Ahead	2,160	0.88
Restaurant Group	2,104	0.86
royalblue	2,050	0.84
Renishaw	2,013	0.82
Premier Oil	1,996	0.81
40 largest	149,648	61.02
Ultra Electronic	1,988	0.81
Greggs	1,983	0.81
Domnick Hunter	1,935	0.79
Umbro	1,889	0.77
Ricardo	1,859	0.76
Rotork	1,857	0.76
London Merchant Securities	1,834	0.75
Forth Ports	1,818	0.74
Isotron	1,770	0.72
Enterprise	1,739	0.71
50 largest	168,320	68.64
•Local Radio	1,727	0.70
•Melrose	1,701	0.69
Euromoney Institutional Investor	1,680	0.69
Burren Energy	1,658	0.68
First Technology	1,622	0.66
Ulster Television	1,620	0.66
Tribal	1,560	0.64
Paddy Power	1,550	0.63
•IBS Opensystems	1,530	0.62
Dana Petroleum	1,491	0.61
60 largest	184,459	75.22

	Valuation as at 31 May 2005 £'000	% of portfolio
Incisive Media	1,490	0.61
•NCC Group	1,483	0.60
Robert Walters	1,430	0.58
Big Yellow	1,414	0.58
ICM Computer	1,398	0.57
Dicom	1,396	0.57
House of Fraser	1,386	0.57
Glotel	1,335	0.54
Teesland Advantage Property	1,326	0.54
•Mayborn Group	1,306	0.53
70 largest	198,423	80.91
•Hamworthy	1,274	0.52
•Augean	1,253	0.51
John Menzies	1,250	0.51
Phoenix	1,243	0.51
SHL Group	1,240	0.51
Halford	1,234	0.50
Psion	1,225	0.50
•RWS Holdings	1,218	0.50
•Majestic Wine	1,216	0.50
•CODASciSys	1,202	0.49
80 largest	210,778	85.96
FKI	1,167	0.48
E2V Holdings	1,156	0.47
Chime Communications	1,156	0.47
Shanks	1,154	0.47
Marshalls	1,135	0.46
•Systems Union	1,125	0.46
Abbot	1,092	0.45
Sondex	1,043	0.43
John Wood	1,042	0.42
•Synergy Healthcare	1,040	0.42
90 largest	221,888	90.49
Game	1,030	0.42
•Dealogic	994	0.41
•Urban Dining	985	0.40
•Powerleague	979	0.40
SVB	914	0.37
•Asia Energy	891	0.36
Woolworths	875	0.36
Porvair	859	0.35
•Shed Productions	828	0.34
Ted Baker	797	0.32
100 largest	231,040	94.22
Gyrus Group	788	0.32
•Amino Technologies	767	0.31
Goshawk Insurance	764	0.31
•Neutec Pharma	761	0.31
Alexon	722	0.29
Zetex	696	0.28
Spring	678	0.28
Clinton Cards	677	0.28
Autologic	647	0.26
•Fun Technologies	639	0.26
110 largest	238,179	97.12
•IP2IPO	633	0.26
Penna Consulting	620	0.25
Xansa	591	0.24
Pillar Property	541	0.22
•Epic Reconstruction	532	0.22
•Offshore Hydrocarbon	514	0.21
John David	498	0.20
•Gulf Keystone Petroleum	478	0.19
RM	457	0.19
•Proximagen Neuroscience	442	0.18
120 largest	243,485	99.28
•First Calgary Petroleums	427	0.17
MSB International	415	0.17
Next Fifteen Communications	371	0.15
†UbiNetics	324	0.14
•Adulis Resources	205	0.09
TOTAL	245,227	100.00

•quoted on the Alternative Investment Market
†unquoted

Fund Manager's review

Analysis of the portfolio by sector	**31 May 2005 %**	31 May 2004 %
Services	**41.9**	44.4
Basic Industries	**26.5**	24.1
Financials	**12.0**	12.4
Information Technology	**8.9**	8.7
Consumer Goods	**5.6**	6.6
Resources	**4.2**	3.4
Miscellaneous	**0.9**	0.4
	100.0	100.0

Neil Hermon

Market – year in review

The year under review has been a profitable and positive one for investors in the UK small cap market. After last year's strong recovery, expectations were for a more subdued performance. Pleasingly these views were proved wrong, with percentage returns from UK equity markets reaching the mid-teens. Robust global economic conditions, strong earnings growth and buoyant take-over activity in the mid and small cap area were clearly positive features. At the same time markets proved resilient to rapidly escalating commodity prices, rising interest rates and a volatile US dollar.

Fund performance

I am pleased to report that the performance of the Trust was strong in the year – both on an absolute and relative basis. The net asset value per share rose 24.5%, on a total return basis, which comes after a 41.7% rise in the previous year. This compares to a total return of 19.0% from the Hoare Govett Smaller Companies (excluding investment companies) Index and a total of 13.3% from the FTSE SmallCap (excluding investment companies) Index. Clearly the Trust benefited from the gearing in place during the year and net asset value enhancing buy-backs. However, as one would expect from a team that focuses on stock picking, a significant proportion of out-performance came from good stock selection.

Portfolio Activity

After the significant re-structuring of the portfolio in late 2002 and early 2003, activity has returned to more normal levels. The focus has been on adding stocks to the portfolio that have good growth prospects, sound financial characteristics and strong management, at a valuation level that does not reflect these strengths. Likewise we have been employing strong sell disciplines to cut out stocks that fail to meet these criteria.

In the year we have added a number of new holdings to our portfolio. These include two oil exploration and production companies – Burren Energy and Premier Oil – which are both benefiting from the current high oil price. Unlike many of their more speculative sector counterparts, both companies offer attractive exploration acreage and significant current production. Other new investments included:

Erinaceous – this company underwent significant expansion when it acquired Hercules Property Services late in 2004. The enlarged business provides a range of services relating to the design, ownership, construction and maintenance of residential and commercial property. The group is benefiting from increased trends in outsourcing and a buoyant social housing sector.

Melrose – Melrose is a diversified engineering business with a significant proportion of its sales to the aerospace industry. It is run by an experienced management team, previously at Wassall, who have a track record of creating shareholder value.

Fund Manager's review
continued

Sportingbet – we invested in this company when it raised money to acquire Paradise Poker, a leading on-line poker site. The share price has subsequently risen over 150%, reflecting the rapid growth in on-line gambling and the significant profitability enjoyed by operators in this area. Recognising that this area carries higher than average risk, we have recently taken substantial profits on part of our holding.

As well as making new investments, we have reduced positions in companies that no longer fit our stringent quality threshold. Some of the sales reflect successful companies that have become too big to be called smaller companies – disposals here include Cairn Energy, Punch Taverns and Taylor Nelson Sofres. In addition, sales were made where our expectations for the company have not been fulfilled. Examples include Acambis, where reduced demand for the smallpox vaccine has reduced forecast profitability, and Photo-Me International, where progress in the roll-out of its digital photography mini-labs and photobooths has been slower than expected. Other sales reflect stocks where we felt the share price more than reflected fair value, such as Regus, where we had made a profit of over 300% on our initial investment.

Strong IPO activity has been a major feature of the UK market in the past year. This reflects a desire for venture capitalists to trade on their more successful investments and a rush of new, young companies looking to raise capital for expansion. The AIM market has been the destination for the vast majority of these new issues, reflecting its advantageous tax treatment and less stringent listing requirements. Recognising the mixed quality of new issues, we took a very disciplined attitude to the opportunities the IPO market provided, being highly selective with new investments. This approach paid significant dividends, with gains made on every IPO the Trust participated in. Particular successes include Carter & Carter, the automotive consultancy and training company, Hamworthy, the engineer, NCC, the IT security and testing company, and Shed Productions, the TV production company.

As mentioned earlier, the small and mid cap area benefited from vibrant take-over activity. This was led by strong interest from private equity players, who, with significant funds to invest and debt plentiful and cheap, made a number of bids for UK quoted companies. Additionally, as business confidence, balance sheet strength and cashflows all improved, corporates again looked at expanding by acquisition. The Trust benefited from this trend with five portfolio companies acquired in the year – HIT Entertainment, IT Net, Kidde, NHP and Pillar Property.

Market outlook

The past two years have been a golden period for UK smaller companies. The out-performance enjoyed since the market lows in mid March 2003 has been driven by good fundamental reasons. However, as small companies have re-rated to a level consistent with the overall UK equity market, their scope to continue outperforming has diminished. Additionally, economic conditions have become more difficult in 2005. Europe remains moribund, the USA is seeing a pause in growth and, most importantly for smaller companies, UK economic growth is slowing as higher interest rates curb an over-extended consumer and industrial output remains flat. This, combined with higher average commodity prices, will dampen earnings growth in 2005. Whilst small companies have enjoyed a significant re-rating in the last two years, valuations are still relatively attractive. Meanwhile corporate activity continues to be buoyant, aided by improving corporate confidence and significant private equity interest in quoted companies.

In conclusion, whilst recognising UK smaller companies are unlikely to produce the levels of return we have seen in the last two years, I believe modest positive returns are likely in 2005/2006. Our investments are trading well, whilst valuation levels are attractive. Additionally, the small cap market continues to throw up exciting growth opportunities into which the Trust can invest. I am optimistic on medium term prospects.

Neil Hermon
Fund Manager
3 August 2005

Directors' report

The directors present the audited accounts of the Group and their report for the year ended 31 May 2005.

Activities and business review

A review of the business is given in the Chairman's statement on page 3 and in the Fund Manager's review on pages 6 and 7.

Status

The Henderson Smaller Companies Investment Trust plc ("the Company") is an investment company as defined in section 266 of the Companies Act 1985 and operates as an investment trust in accordance with section 842 of the Income and Corporation Taxes Act 1988. Inland Revenue approval of the Company's status as an investment trust has been received in respect of the year ended 31 May 2004, although approval for that year is subject to review should there be any subsequent enquiry under Corporation Tax Self Assessment. The Company will continue to seek approval under section 842 of the Income and Corporation Taxes Act 1988 each year. The Company has no employees.

Investment in investment companies

The Company has announced that it is its stated investment policy to invest no more than 15% of its gross assets in other UK listed investment companies. At 31 May 2005 the Company had one investment in a UK listed investment company, valued at £1.3 million (equivalent to 0.54% of the Company's portfolio). The investment company concerned invests in commercial property.

PEPs and ISAs

The Company intends to continue as a fully qualifying investment trust company under the regulations governing Personal Equity Plans and Individual Savings Accounts.

Life of the Company

The Board announced on 27 September 2002 that it proposed to introduce regular continuation votes for the Company. Accordingly, a continuation vote was put to the annual general meeting of the Company held on 24 September 2004, and in 2007, and at every third annual general meeting thereafter, an ordinary resolution will be put asking the shareholders to approve the continuation of the Company as an investment trust.

Assets

The Group's net assets increased during the year from £197.5 million to £217.1 million. The net asset value per ordinary share was 213.5p at 31 May 2005 compared with 172.1p at the previous year end, an increase of 24.1%.

Revenue and dividend

The Group's net revenue on ordinary activities after taxation for the year was £1,563,000 (2004: £1,371,000).

The directors recommend a final dividend of 1.15p per ordinary share (2004: 1.00p). Subject to approval at the annual general meeting, the final dividend will be paid on 7 October 2005 to shareholders on the register of members on 2 September 2005.

Directors

The directors of the Company, as shown on page 2, are Mrs S M Davis, Mr J D Fishburn, Mr P V S Manduca, Mr J J Nelson and Mr J M P Taylor. All served throughout the year under review.

The interests of the directors in the ordinary shares of the Company are shown below:

	Ordinary shares of 25p each	
	31 May 2005	1 June 2004
With beneficial interest:		
S M Davis	**5,655**	4,633
J D Fishburn	**11,618**	9,118
P V S Manduca	**37,828**	19,662
J J Nelson	**32,500**	30,000
J M P Taylor	**12,712**	11,647

No director had an interest in the preference or debenture stocks of the Company. There were no changes in the directors' interests between the year end and 3 August 2005.

In accordance with the Company's articles of association, Mr Fishburn will retire by rotation at the forthcoming annual general meeting and, being eligible, offers himself for re-election. Mr Manduca and Mr Taylor will also stand for re-election, having served as directors for more than nine years. The Board considers that each of these directors should be re-elected because, despite having demanding positions involving foreign travel, they bring wide, current and relevant business experience that allows them to contribute effectively to the leadership of the Company.

Directors' report

continued

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

The directors have reviewed their independence in the context of the Combined Code and by reference to the AITC's Code of Corporate Governance. Mr Manduca served as fund manager to the Company from 1983 to 1987 before moving to senior executive roles within the then management company, Touche, Remnant & Co. ("Touche Remnant"). He was deputy managing director of Henderson Administration Group plc ("Henderson") until 1994 following Henderson's acquisition of Touche Remnant in 1992. Since then he has held several senior executive positions in other investment management houses. By reason of the passage of time and his subsequent wide experience, the Board considers him to be independent of Henderson (which is now known as Henderson Global Investors). The other directors have had no material connections with Henderson at all, other than as directors of the Company. The Board is of the opinion that each of the directors is independent in character and judgement and that there are no relationships or circumstances that are likely to affect their judgement. Mr Fishburn, Mr Manduca and Mr Taylor have served on the Board for more than nine years and will therefore stand for election by the shareholders each year. The Board is firmly of the view, however, that length of service does not of itself impair a director's ability to act independently. Rather, a long-serving director can offer a perspective that adds value to the deliberations of a well-balanced investment trust company board. As such, the Board considers Mr Fishburn, Mr Manduca and Mr Taylor to be independent but, in accordance with the new Combined Code, their roles and contributions will be subject to particularly rigorous review every year.

The number of formal meetings during the year of the Board and its Committees, and the attendance of individual directors at those meetings, is shown opposite.

	Board	Audit Committee
Number of meetings	5	3
J D Fishburn	5	3
S M Davis	5	3
P V S Manduca	5	3
J J Nelson	4	2
J M P Taylor	5	3

The Management Engagement and Nomination Committees did not meet formally during the year. All the directors attended the Annual General Meeting.

Directors' fees

A report on the directors' remuneration is set out on pages 12 and 13.

Corporate governance

A formal statement on corporate governance is set out on pages 14 to 17.

Donations

During the year the Company made charitable donations of £5,000 (2004: £6,000). No political donations were made (2004: £nil).

The payment of creditors

It remains the Company's policy for the forthcoming financial year to obtain the best 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 31 May 2005 (2004: none).

Investment Manager

Investment management, UK custodial, accounting, administrative and company secretarial services are provided to the Company by subsidiaries of Henderson Global Investors (Holdings) plc ("Henderson") and by BNP Paribas Fund Services UK Limited (formerly Cogent Investment Operations Limited). The management agreement between the Company and Henderson provides for the payment of a composite annual management fee, calculated as a percentage of the value of the assets under management. The management fee is calculated quarterly as 0.1 per cent of the value of the assets under management on the last day of the quarter preceding the quarter in respect of which the calculation is made. Assets under management for the purpose of calculating the management fee exclude any holdings in funds managed by Henderson. The management fee is payable quarterly in advance. VAT is payable on the fee where applicable.

The management agreement provides for the percentage rates to be reviewed every three years. The next review was scheduled for 2005, any changes to take effect from 1 January 2006. However, as referred to in the Chairman's Statement on page 3, the Board has decided to bring the review date forward and since the year end has begun negotiations with Henderson for the introduction of a performance fee and a reduction in what will probably be termed the base management fee.

The management agreement may be terminated by either party but in certain events the Company would be required to pay compensation to Henderson of an amount equal to one year's management charges. Compensation is not payable if one year's notice of termination is given.

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

The Investment Manager uses certain services which are paid for or provided by various brokers. In return it has placed business, which may have included transactions relating to the Company, with these brokers. The Company withdrew from Henderson's soft commission arrangements with effect from 31 May 2005.

Independent auditors

Resolutions to reappoint PricewaterhouseCoopers LLP as auditors to the Company, and to authorise the directors to determine their remuneration, will be proposed at the forthcoming annual general meeting.

Substantial share interests

As at 3 August 2005 the following had declared an interest in 3% or more of the issued ordinary shares of the Company:

	%
M&G Investment Management Limited	9.01
Royal London Asset Management Limited	8.35
Standard Life Investments	8.17
Legal & General Investment Management Limited	3.79

The above percentages are calculated by applying the shareholdings as notified to the Company to the issued share capital as at 3 August 2005.

The Board is aware that, as at 31 May 2005, 1.94% of the issued share capital was held on behalf of participants in the Henderson Investment Trust Share Plan and 3.42% on behalf of participants in the Henderson PEPs and ISAs. The participants in these plans 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 but if the participants choose not to do so the voting rights are not exercised.

Preference stock

In a circular to shareholders and preference stockholders dated 24 February 1999, the Company proposed to offer to purchase for cancellation all the Company's outstanding preference stock at £1 per unit, being the par value of the preference stock units. At an extraordinary general meeting of the Company held on 22 March 1999 these proposals, together with the related changes to the articles of association, were approved. At 31 May 2005 acceptances had been received in respect of £865,743 of the stock, leaving £9,257 in issue. It is intended that the offer will remain open until such time as all the preference stock has been acquired and, accordingly, a resolution will be put to the forthcoming annual general meeting to renew the Company's powers to repurchase it.

Share buy-back facility

The Company's articles of association permit the Company to purchase its own shares and to fund such purchases from its accumulated realised capital profits.

Directors' report

continued

At the annual general meeting in September 2004 a special resolution was passed giving the Company authority, until the conclusion of the annual general meeting in 2005, to make market purchases for cancellation of the Company's own ordinary shares up to a maximum of 16,570,221 shares (being 14.99% of the issued ordinary share capital as at 24 September 2004). As at 31 May 2005 the Company had valid authority, outstanding until the conclusion of the annual general meeting in 2005, to make market purchases for cancellation of 7,684,663 shares.

During the year ended 31 May 2005 the Company purchased for cancellation a total of 13,105,558 of its own ordinary shares, representing 11.4% of the ordinary shares in issue at 31 May 2004. These purchases, which cost £20.7 million excluding stamp duty, were funded from the realised capital reserves. Since the year end a total of 125,000 shares have been bought back.

The Board considers that the Company should continue to have authority to make market purchases of its own ordinary shares for cancellation. Accordingly, a special resolution will be proposed at the forthcoming annual general meeting to authorise the Company to make market purchases for cancellation of up to 14.99% of the ordinary shares in issue at the date of the annual general meeting (equivalent to 15,219,539 ordinary shares if there is no change in the issued ordinary share capital between the date of this report and the annual general meeting). Under the Listing Rules of the UK Listing Authority, this is the maximum percentage of its equity share capital that a company may purchase through the market pursuant to such authority.

The directors believe that buying back the Company's own shares in the market, at appropriate times and prices, is in the best interests of shareholders generally. The Company will make purchases within guidelines set from time to time by the Board and if or when market conditions are suitable, with the aim of maximising the benefit to the remaining shareholders. The directors will not use this authority unless to do so would result in an increase in the net asset value per ordinary share. Shares will not be bought back at a price that is less than 25p (the nominal value) or more than 5% above the average middle market price of the shares over the preceding five business days. The directors intend to seek a fresh authority at the annual general meeting in 2006.

By order of the Board
G S Rice
For and on behalf of
Henderson Secretarial Services Limited,
Secretary
3 August 2005

Directors' remuneration report

Introduction

This report is submitted in accordance with the Directors' Remuneration Report Regulations 2002 in respect of the year ended 31 May 2005.

Consideration by the directors of matters relating to directors' remuneration

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

Statement of the Company's policy on directors' remuneration

The Board consists entirely of non-executive directors who meet at least five times a year to deal with the important aspects of the Company's affairs. New directors are appointed with the expectation that they will serve for a period of three years. Directors' appointments are reviewed formally every three years thereafter by the Board as a whole. None of the directors has a contract of service or a contract for services and a director may resign by notice in writing to the Board at any time; there are no set notice periods. The Company's policy is for the directors to be remunerated in the form of fees, payable quarterly in arrears, to the director personally or to a third party specified by him or her. The directors have undertaken to use a proportion of their fees to purchase shares in the Company. There are no long term incentive schemes and the fees are not specifically related to the directors' performance, either individually or collectively.

The Company's policy is that the fees payable to the directors should reflect the time spent by the Board on the Company's affairs and the responsibilities borne by the directors and should be sufficient to enable candidates of high calibre to be recruited. The policy is for the Chairman of the Board to be paid higher fees than the other directors in recognition of his more onerous role.

The Company's articles of association limit the fees payable to the directors to £150,000 per annum. The directors' fees were increased, with effect from 1 January 2005, as follows: the Chairman from £26,500 to £27,000 per annum, the Chairman of the Audit Committee from £15,000 to £16,000 per annum and the other directors from £15,000 to £15,500 per annum. The policy is to review the fee rates from time to time, although such review will not necessarily result in any change to them.

Directors' and officers' liability insurance cover is held by the Company in respect of the directors.

Performance graph

Although the Company's benchmark is now the Hoare Govett Smaller Companies (excluding investment companies) Index, the FTSE SmallCap (excluding investment companies) Index is selected here because it was the Company's benchmark for the first three years of the five year period covered by the graph.

Directors' remuneration report

continued

Amount of each director's emoluments

The fees payable in respect of each of the directors who served during the year, and during 2004, were as follows:

	2005	2004
	£	£
S M Davis	**15,417**	15,000
J D Fishburn	**26,708**	26,500
P V S Manduca	**15,208**	15,000
J J Nelson	**15,208**	15,000
J M P Taylor	**15,208**	15,000
TOTAL	**87,749**	86,500

No other remuneration or compensation was paid or payable by the Company during the year to any of the current or former directors. No expenses were claimed by or paid to any of the directors (2004: £nil).

Only the information included within the box has been audited (see the report of the independent auditors on page 18).

By order of the Board
G S Rice
For and on behalf of
Henderson Secretarial Services Limited,
Secretary
3 August 2005

Statement of directors' responsibilities

in respect of the accounts

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the net revenue of the Group for that period. In preparing those accounts, the directors are required to:

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

The directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and Group and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The accounts are published on the www.itshenderson.com website, which is a website maintained by the Company's Investment Manager, Henderson Global Investors Limited ("Henderson"). The maintenance and integrity of the website maintained by Henderson or any of its subsidiaries is, so far as it relates to the Company, the responsibility of Henderson. The work carried out by the auditors does not involve consideration of the maintenance and integrity of this website and, accordingly, the auditors accept no responsibility for any changes that have occurred to the accounts since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the accounts may differ from legislation in their jurisdiction.

Corporate governance

Background

The UK Listing Authority requires all listed companies to disclose how they have applied the principles and complied with the provisions of The Combined Code on Corporate Governance ("the Code").

Throughout the year under review the Code in force was The Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003 (which is effective for financial years beginning on or after 1 November 2003). In addition, the AITC Code of Corporate Governance, issued by the Association of Investment Trust Companies in July 2003, applies to the Company ("the AITC Code").

Application of the principles of the Code

The Company is committed to high standards of corporate governance and the Board attaches importance to the matters set out in the Code and applies its principles. However, as an investment trust company, most of the Company's day to day responsibilities are delegated to third parties and the directors are all non-executive. Thus not all of the provisions of the Code are directly applicable to the Company.

The Board of directors

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

The Board currently consists of five non-executive directors, all of whom the directors consider to be independent of the Company's Investment Manager (Henderson Global Investors Limited). Their biographical details, set out on page 2 and expanded on pages 8 and 9, demonstrate a breadth of investment, commercial and professional experience with an international perspective.

The Board meets at least five times a year and deals with the important aspects of the Company's affairs, including the setting of parameters for and the monitoring of investment strategy and the review of investment performance. The Board sets limits on the size and concentration of new investments, on the use of derivatives and on the extent to which borrowings may be used. The application of these and other restrictions, including those which govern the Company's tax status as an investment trust, are reviewed regularly at meetings of the Board. The Investment Manager takes decisions as to the purchase and sale of individual investments and is responsible for effecting those decisions on the best available terms. The Chairman is responsible for leading the Board and for ensuring that it continues to deal effectively with all the aspects of its role. In particular, he ensures that the Investment Manager provides the directors, in a timely manner, with management, regulatory and financial information that is clear, accurate and relevant. Representatives of the Investment Manager attend each Board meeting, enabling the directors to seek clarification on specific issues or to probe further on matters of concern. Matters specifically reserved for decision by the full Board have been defined and there is an agreed procedure for directors, in the furtherance of their duties, to take independent professional advice, if necessary, at the Company's expense. The directors have access to the advice and services of the corporate company secretary, through its appointed representative, who is responsible to the Board for ensuring that Board procedures are followed.

When a director is appointed he or she is offered a tailored introductory programme organised by the Investment Manager. Directors are also provided, on a regular basis, with key information on the Company's policies, regulatory and statutory requirements and internal controls. Changes affecting directors' responsibilities are advised to the Board as they arise. Directors are encouraged to attend suitable training courses on an ongoing basis at the Company's expense.

Corporate governance
continued

Directors are appointed for specified terms, subject to re-election and to the provisions of the Companies Act. In accordance with the Company's articles of association, new directors stand for election at the first annual general meeting following their appointment. The Board has agreed that every director will stand for re-election at intervals of not more than three years. In accordance with the Code, directors who serve for more than nine years stand for re-election annually.

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

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

The Chairman of the Company is an independent non-executive director. A senior non-executive 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 when issues arise. Accordingly, any concerns can be conveyed to the director most qualified to address the subject.

Board committees

The Board has established Audit, Management Engagement and Nomination Committees with defined terms of reference and duties. All three committees comprise non-executive directors appointed by the Board; the Board also appoints the Chairmen. The membership of these Committees is set out on page 2. A record of the meetings held during the year is set out on page 9.

Audit Committee

Although none of the members of the Audit Committee is by profession an accountant, the Board considers that several of the directors, including the Chairman of the Audit Committee, have recent and relevant financial experience from their senior management roles elsewhere. The Audit Committee's programme is to meet at least three times a year: in advance of the publication of both the annual and the interim results and on at least one other occasion with an agenda that is focused on its broader responsibilities.

The role of the Audit Committee is to assist the Board in applying financial reporting and internal control principles and to maintain an appropriate relationship with the auditors. The Audit Committee is responsible for the review of the annual report and the interim report and for monitoring the integrity of the Company's financial statements generally, including consideration of the Company's accounting policies and significant reporting judgements. It reviews the nature and scope of the external audit and the findings therefrom, and the terms of appointment of the auditors, including their remuneration and the provision of any non-audit services by them. It also monitors the auditors' independence and objectivity and the effectiveness of the audit process. It meets with representatives of the Investment Manager and receives reports on the quality and effectiveness of the accounting records and management information maintained on behalf of the Company. It is responsible to the Board for monitoring the Company's internal control and risk management procedures. The Audit Committee met three times during the year to carry out these duties.

Management Engagement Committee
The Management Engagement Committee is responsible for the regular review of the terms of the management contract with the Investment Manager.

Nomination Committee
The Nomination Committee is responsible for making recommendations on the appointment of new directors. Each director is invited to submit nominations and external advisers may be used to identify potential candidates. The nominations list is considered by the Board as a whole, in accordance with its agreed procedures, although the Chairman would not expect to be involved in the selection of his successor.

Directors' remuneration
The Board as a whole considers the directors' remuneration; therefore it has not appointed a separate remuneration committee for this purpose. Because the Company is an investment trust company and all its directors are non-executive, the Company is not required to comply with the provisions of the Code in respect of the remuneration of executive directors. The directors' fees are detailed in the Directors' Remuneration Report on pages 12 and 13. The directors have undertaken to use part of their fees, after statutory deductions, to purchase shares in the Company.

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

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

The Board considers that the annual general meeting should provide an effective forum for individual investors to communicate with the directors. The annual general meeting is chaired by the Chairman of the Board. All the other directors, including the Chairman of the Audit Committee, expect to be present. Details of the proxy votes received in respect of each resolution are made available to shareholders. Representatives of the Investment Manager make a presentation to the meeting. The Company has adopted a nominee share code which is set out on page 33.

Accountability and audit
The directors' statement of responsibilities in respect of the accounts is set out on page 13. The responsibilities of the independent auditors are set out on page 18. The directors' report that the business is a going concern is set out on page 17.

The Board has delegated contractually to external agents, including the Investment Manager, the management of the investment portfolio, the custodial services (which include the safeguarding of the assets), the day to day accounting, company secretarial and administration requirements and the registration services. Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of the services offered, including the control systems in operation in so far as they relate to the affairs of the Company. The Board receives and considers regular reports from the Investment Manager and ad hoc reports and information are supplied to the Board as required. In addition, either the Chairman or another director attends meetings of all the chairmen of the investment trust companies managed by the Investment Manager; these meetings provide a forum to discuss industry matters and the Chairman reports on them to the Board.

Internal control
The Investment Manager has established an internal control framework to provide reasonable assurance on the effectiveness of the internal controls operated on behalf of its clients. The effectiveness of the internal controls is assessed by the Investment Manager's internal audit and compliance and risk department on an ongoing basis.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This process is subject to regular review by the Board and accords with the Turnbull guidance. The process was fully in place during the year under review and up to the date of this annual report. In addition, the Board has conducted its annual review of the effectiveness of the Company's system of internal control, covering all the controls, including financial, operational and compliance controls and risk management systems. This review took into account points raised during the year in the Board's regular appraisal of specific areas of risk. The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risks of failure to achieve the Company's business objective and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board, assisted originally by the Investment Manager, undertook a full review of the Company's business risks and these are analysed and recorded in a risk map. This was reviewed in detail by the Audit Committee during the year. The Board receives each quarter from the Investment 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 Investment Manager, and which reports the details of any known internal control failures. The Board receives each year from the Investment Manager a report on its internal controls (a "FRAG 21" report) which includes a report from the Investment Manager's auditors on the control policies and procedures in operation.

The Company does not have an internal audit function; it delegates to third parties most of its operations and does not employ any staff. Accordingly, in practice the Board must place reliance on the Investment Manager and its other contractors to ensure that they operate effective internal audit functions. The Board will continue to monitor its system of internal control in order to provide assurance that it operates as intended and the directors will review at least annually whether a function equivalent to an internal audit is needed.

Going Concern

The directors believe that it is appropriate to adopt the going concern basis in preparing the accounts as the assets of the Company consist mainly of securities that are readily realisable and, accordingly, the Company has adequate financial resources to continue in operational existence for the foreseeable future.

Environmental and human rights policy and the exercise of voting powers

The Code emphasises that the way in which institutional investors use their power to influence the standards of corporate governance is of fundamental importance and their readiness to do this turns on the degree to which they see it as their responsibility as owners, and in the interest of those whose money they are investing, to bring about changes in companies when necessary.

In this regard, the Company's Investment Manager follows a responsible investment policy covering the UK requirements of the Code in full. The Investment Manager votes with this policy in mind and enjoys the benefits of having its own socially responsible investment and corporate engagement teams. The Board has approved a corporate governance voting policy for the United Kingdom which accords with current best practice whilst maintaining a primary focus on financial returns.

Statement of compliance

The directors consider that the Company has complied during the year ended 31 May 2005 with all the relevant provisions set out in the Code, with the exception that the Board has not appointed a senior independent director. The directors consider that the Company has complied throughout the year ended 31 May 2005 with the AITC Code.

Independent auditors' report

to the members of The Henderson Smaller Companies Investment Trust plc

We have audited the accounts which comprise the Group statement of total return, the balance sheets, the Group cash flow statement and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the directors' remuneration report ("the auditable part").

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the accounts in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities. The directors are also responsible for preparing the directors' remuneration report.

Our responsibility is to audit the accounts and the auditable part of the directors' remuneration report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the accounts give a true and fair view and whether the accounts and the auditable part of the directors' remuneration report have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. The other information comprises only the Chairman's statement, the Fund Manager's review, the unaudited part of the directors' report, the directors' remuneration report and the corporate governance statement.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code, specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts and the auditable part of the directors' remuneration report. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts and the auditable part of the directors' remuneration report are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion:

- the accounts give a true and fair view of the state of affairs of the Company and the Group at 31 May 2005 and of the total return and cash flows of the Group for the year then ended;
- the accounts have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the directors' remuneration report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
3 August 2005

Group statement of total return (incorporating the consolidated revenue account)

for the year ended 31 May 2005

Notes		Year ended 31 May 2005 Revenue £'000	Capital £'000	Total £'000	Year ended 31 May 2004 Revenue £'000	Capital £'000	Total £'000
2	Total capital gains from investments	–	**39,921**	**39,921**	–	57,939	57,939
3	Income from fixed asset investments	**5,320**	–	**5,320**	4,732	–	4,732
4	Other interest receivable and similar income	**136**	–	**136**	110	–	110
	Gross revenue and capital gains	**5,456**	**39,921**	**45,377**	4,842	57,939	62,781
5	Management fee	**(1,120)**	–	**(1,120)**	(893)	–	(893)
6	Other administrative expenses	**(319)**	–	**(319)**	(334)	–	(334)
	Net return on ordinary activities before interest payable and taxation	**4,017**	**39,921**	**43,938**	3,615	57,939	61,554
7	Interest payable	**(2,454)**	–	**(2,454)**	(2,244)	–	(2,244)
	Net return on ordinary activities before taxation	**1,563**	**39,921**	**41,484**	1,371	57,939	59,310
8	Taxation on net return on ordinary activities	–	–	–	–	–	–
	Net return on ordinary activities after taxation	**1,563**	**39,921**	**41,484**	1,371	57,939	59,310
9	**Dividends – ordinary shares**						
	Final: 1.15p (2004: 1.00p)	**(1,116)**	–	**(1,116)**	(1,148)	–	(1,148)
	Transfer to reserves	**447**	**39,921**	**40,368**	223	57,939	58,162
10	**Return per ordinary share**	**1.44p**	**36.71p**	**38.15p**	1.17p	49.65p	50.82p

The revenue columns of this statement represent the consolidated profit and loss accounts of the Group (see note 20 on page 30).

The notes on pages 22 to 32 form part of these accounts.

Balance sheets

at 31 May 2005

Notes		Group 2005 £'000	Group 2004 £'000	Company 2005 £'000	Company 2004 £'000
11,12	**Fixed asset investments**				
&13	Listed investments at market value	**216,098**	209,469	**216,098**	209,469
11	AIM investments at market value	**28,805**	16,876	**28,805**	16,876
11	Unquoted investments at directors' valuation	**324**	324	**324**	324
12	Subsidiary undertaking	**–**	–	**2,269**	2,270
		245,227	226,669	**247,496**	228,939
	Current assets				
14	Debtors	**1,157**	1,406	**1,157**	1,406
	Cash at bank and short term deposits	**–**	488	**–**	488
		1,157	1,894	**1,157**	1,894
15	**Creditors: amounts falling due within one year**	**(9,304)**	(11,020)	**(11,573)**	(13,290)
	Net current liabilities	**(8,147)**	(9,126)	**(10,416)**	(11,396)
	Total assets less current liabilities	**237,080**	217,543	**237,080**	217,543
16	**Creditors: amounts falling due after more than one year**	**(20,000)**	(20,000)	**(20,000)**	(20,000)
	Total net assets	**217,080**	197,543	**217,080**	197,543
	Capital and reserves				
18	Called up share capital	**25,423**	28,700	**25,423**	28,700
19	Capital redemption reserve	**20,002**	16,725	**20,002**	16,725
19	Other capital reserves	**167,494**	148,404	**169,763**	150,674
20	Revenue reserve	**4,161**	3,714	**1,892**	1,444
21 & 22	**Shareholders' funds** (including non-equity interests of £9,000; 2004: £9,000)	**217,080**	197,543	**217,080**	197,543
23	**Net asset value per ordinary share**	**213.5p**	172.1p	**213.5p**	172.1p

These accounts were approved by the directors on 3 August 2005 and were signed on their behalf by:

J D Fishburn

The notes on pages 22 to 32 form part of these accounts.

Group cash flow statement

for the year ended 31 May 2005

Notes		2005 £'000	2005 £'000	2004 £'000	2004 £'000
25	**Net cash inflow from operating activities**		**4,410**		3,256
	Servicing of finance				
	Debenture interest paid	**(3,150)**		(2,100)	
	Bank overdraft and loan interest paid	**(353)**		(157)	
	Net cash outflow from servicing of finance		**(3,503)**		(2,257)
	Net tax recovered		**–**		–
	Financial investment				
	Purchases of investments	**(57,714)**		(70,843)	
	Sales of investments	**78,181**		63,807	
	Net cash inflow/(outflow) from financial investment		**20,467**		(7,036)
	Equity dividends paid		**(1,106)**		(585)
	Financing				
	Purchases of own shares	**(20,831)**		(3,109)	
	(Repayment)/drawdown of loans	**(286)**		7,500	
	Net cash (outflow)/inflow from financing		**(21,117)**		4,391
26	**Decrease in cash**		**(849)**		(2,231)
	Reconciliation of net cash flow to movements in net debt				
	Decrease in cash as above		**(849)**		(2,231)
	Cash outflow/(inflow) from debt financing		**286**		(7,500)
	Change in net debt resulting from cash flows		**(563)**		(9,731)
	Net debt at 1 June		**(27,012)**		(17,281)
26	**Net debt at 31 May**		**(27,575)**		(27,012)

The notes on pages 22 to 32 form part of these accounts.

Notes to the accounts

1 Accounting policies

(a) Basis of accounting

The accounts are prepared on the historical cost basis of accounting, modified to include the revaluation of investments. The accounts have been prepared in accordance with the Companies Act 1985, applicable accounting standards and with the Statement of Recommended Practice *Financial Statements of Investment Trust Companies* ("the SORP") dated January 2003. All of the Group's operations are of a continuing nature.

(b) Basis of consolidation

The Group accounts consolidate the accounts of the Company and of its wholly owned subsidiary undertaking, Henderson Smaller Companies Finance Limited.

(c) Valuation of fixed asset investments

Listed investments in the United Kingdom are valued according to the prices issued by the London Stock Exchange, being the closing mid-market prices or last traded price for all investments where appropriate. Investments which are quoted but unlisted are valued at their closing middle market prices as issued by various sources.

Unquoted investments are valued by the directors at the balance sheet date at cost, unless circumstances indicate that different valuations are warranted. In general, valuations are increased where a substantial arm's length transaction has occurred subsequent to acquisition at a price higher than cost and valuations are decreased where subsequent transactions have taken place at a price lower than cost or where the directors are aware that the company is experiencing operating difficulties.

(d) Capital gains and losses

Realised and unrealised capital gains and losses on fixed asset investments, together with exchange differences arising on the translation of foreign currency assets and liabilities, are dealt with in the other capital reserves.

(e) Income

Dividends receivable from equity shares are taken to the revenue account on an ex-dividend basis. Special dividends are treated as income or as capital, depending on the facts of each individual case. Income from fixed interest debt securities is recognised on a time apportionment basis and, if material, so as to reflect the effective yield on these securities. The trading profits of the subsidiary undertaking, which represent realised gains and losses on the sale of current asset investments, are dealt with in the Group statement of total return as a revenue item. Bank deposit interest is accounted for on an accruals basis.

(f) Expenses

All expenses and interest payable are accounted for on an accruals basis. All administrative expenses, including the management fee and interest payable, are charged to the revenue account. Expenses which are incidental to the purchase or sale of an investment are included within the cost or deducted from the proceeds of the investment.

(g) Deferred taxation

Deferred taxation is provided on all timing differences that have originated but not reversed by the balance sheet date other than those differences regarded as permanent. Any liability to deferred tax is provided at the average rate of tax expected to apply. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

(h) Foreign currency

Transactions recorded in overseas currencies during the year are translated into sterling at the appropriate daily exchange rates. Assets and liabilities denominated in overseas currencies at the balance sheet date are translated into sterling at the exchange rates ruling at that date.

Notes to the accounts

continued

2	Total capital gains from investments	2005 £'000	2004 £'000
	Realised gains/(losses) based on historical cost	**22,243**	(10,275)
	Amounts recognised as unrealised in previous years	**(15,388)**	21,660
	Realised gains based on carrying value at the previous balance sheet date	**6,855**	11,385
	Net movement in unrealised appreciation	**33,066**	46,554
		39,921	57,939

3	Income from fixed asset investments	2005 £'000	2004 £'000
	Listed investments		
	Dividend income	**5,148**	4,514
	Stock dividends	**-**	85
		5,148	4,599
	Unlisted investments	**172**	133
	Total income from fixed asset investments	**5,320**	4,732

4	Other interest receivable and similar income	2005 £'000	2004 £'000
	Bank interest	**33**	32
	Other income	**81**	49
	Underwriting commission	**22**	29
		136	110

5	***Management fees*** *(all charged to revenue)*	2005 £'000	2004 £'000
	Management fees	**968**	772
	Irrecoverable VAT thereon	**152**	121
		1,120	893

A summary of the terms of the management agreement is given on pages 9 and 10 in the directors' report.

Notes to the accounts
continued

6	Other administrative expenses	2005 £'000	2004 £'000
	Directors' fees (see the directors' remuneration report on pages 12 and 13)	**88**	87
	Auditors' remuneration for audit services (including £17,000 (2004: £16,000) relating to the parent undertaking)	**20**	17
	Other expenses payable to the management company*	**17**	14
	Other expenses, including irrecoverable VAT	**194**	216
		319	334

* Other expenses payable to the management company relate to the marketing and administration of the Henderson Investment Trust Share Plan.

7	Interest payable	2005 £'000	2004 £'000
	Bank overdraft and loan interest	**354**	144
	Interest on debentures that are repayable wholly or partly after five years	**2,100**	2,100
		2,454	2,244

8 Taxation

(a) Taxation charge on ordinary activities

	2005 £'000	2004 £'000
Corporation tax at 30%	**–**	–
Overseas tax recoverable	**–**	–
	–	–

(b) Factors affecting the tax charge for the year

Approved investment trusts are exempt from tax on capital gains made within the investment trust.

The tax assessed for the year is lower than the standard rate of corporation tax in the UK of 30% (2004: 30%). The differences are explained below:

	2005 £'000	2004 £'000
Revenue return on ordinary activities before taxation	**1,563**	1,371
Revenue return on ordinary activities multiplied by the standard rate of corporation tax	**469**	411
Effects of:		
Non-taxable UK investment income	**(1,570)**	(1,399)
Excess management expenses and loan deficits	**1,099**	980
Movement in taxable income accruals	**(3)**	–
Overseas tax recoverable	**–**	–
Disallowed expenses	**5**	8
Current revenue tax credit	**–**	–

Notes to the accounts
continued

8 Taxation (continued)

(c) Provision for deferred taxation

No provision for deferred taxation has been made in the current year or in the prior year.

The Company has not provided for deferred tax on capital gains or losses arising on the revaluation or disposal of investments as it is exempt from tax on these items because of its status as an investment trust company.

(d) Factors that may affect future tax charges

The Company has not recognised a deferred tax asset of £8,068,000 (2004: £6,971,000) arising as a result of having unutilised management expenses and deficits on loan relationships. These expenses will only be utilised if the tax treatment of the capital gains made by the Company changes or if the Company's investment profile changes.

9 Dividend

Subject to approval at the annual general meeting, the recommended final dividend of 1.15p per ordinary share will be paid on 7 October 2005 to shareholders on the register of members at the close of business on 2 September 2005. A sum of £1,169,000 has been provided to cover this, based on the issued share capital at 31 May 2005.

The final dividend accrued in respect of the year ended 31 May 2004, at 1.00p per ordinary share, amounted to £1,148,000. The buy-backs of the Company's ordinary shares, after 31 May 2004 but before the record date of the final dividend for the year ended on that date, resulted in a write-back of £42,000 for dividends accrued in respect of the year ended 31 May 2004 but not in the event payable. In addition to this, £11,000 has been written back in respect of dividends unclaimed for more than 12 years. The figure of £1,116,000 shown is net of these amounts.

10 Return per ordinary share

The revenue return per ordinary share is based on the earnings attributable to the ordinary shares of £1,563,000 (2004: £1,371,000) and on the weighted average number of ordinary shares in issue during the year of 108,747,775 (2004: 116,695,187).

The capital return per ordinary share is based on the net capital gains for the year of £39,921,000 (2004: £57,939,000) and on the weighted average number of ordinary shares in issue during the year, as above.

The Company has no securities in issue that could dilute the return per ordinary share.

11 Fixed asset investments

(a) Group	£'000
Valuation at 1 June 2004	226,669
Unrealised appreciation	(26,595)
Cost at 1 June 2004	200,074
Additions at cost	56,820
Disposals at cost	(55,940)
Cost at 31 May 2005	200,954
Unrealised appreciation	44,273
Valuation at 31 May 2005	**245,227**

Included in the total of fixed asset investments are (i) unlisted investments that are quoted on the Alternative Investment Market of £28,805,000 (2004: £16,876,000) and (ii) unlisted investments that are unquoted and shown at the directors' valuation of £324,000 (2004: £324,000).

Notes to the accounts

continued

11 Fixed asset investments (continued)

At 31 May 2005 none of the portfolio was held in convertible securities (31 May 2004: nil). There were no fixed interest securities in the portfolio at either date.

(b) Company	Investments £'000	Subsidiary undertaking £'000	Total fixed assets £'000
Valuation at 1 June 2004	226,669	2,270	228,939
Unrealised appreciation	(26,595)	(2,270)	(28,865)
Cost at 1 June 2004	200,074	–	200,074
Additions at cost	56,820	–	56,820
Disposals at cost	(55,940)	–	(55,940)
Cost at 31 May 2005	200,954	–	200,954
Unrealised appreciation	44,273	2,269	46,542
Valuation at 31 May 2005	**245,227**	**2,269**	**247,496**

Included in the total of fixed asset investments are (i) unlisted investments that are quoted on the Alternative Investment Market of £28,805,000 (2004: £16,876,000) and (ii) unlisted investments that are unquoted and shown at the directors' valuation of £2,593,000 (2004: £2,594,000).

12 Subsidiary undertaking

The Company has an investment in the issued ordinary share capital, fully paid, of £2 in its wholly owned subsidiary undertaking, Henderson Smaller Companies 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 accounts at net asset value.

13 Substantial interests

The Group held interests in 3% or more of any class of share capital in 9 investee companies. None of these investments are considered by the directors to be significant in the context of these accounts.

14 Debtors	Group 2005 £'000	Group 2004 £'000	Company 2005 £'000	Company 2004 £'000
Securities sold for future settlement	**278**	276	**278**	276
Withholding tax recoverable	**3**	–	**3**	–
Prepayments and accrued income	**865**	1,130	**865**	1,130
Other debtors	**11**	–	**11**	–
	1,157	1,406	**1,157**	1,406

Notes to the accounts

continued

15	Creditors: amounts falling due within one year	Group 2005 £'000	Group 2004 £'000	Company 2005 £'000	Company 2004 £'000
	Securities purchased for future settlement	**215**	1,109	**215**	1,109
	Bank loans	**7,214**	7,500	**7,214**	7,500
	Bank overdraft	**361**	–	**361**	–
	Amounts owed to subsidiary undertaking	**–**	–	**2,269**	2,271
	Proposed dividends	**1,169**	1,148	**1,169**	1,148
	Accruals and deferred income	**345**	1,263	**345**	1,262
		9,304	11,020	**11,573**	13,290

16	Creditors: amounts falling due after more than one year	Group and Company 2005 £'000	Group and Company 2004 £'000
	Debenture stock: redemption after more than five years:		
	10.5% debenture stock 2016 (redeemable at par on 31 May 2016)	**20,000**	20,000

The Company may at any time purchase any of the debenture stock, in accordance with the provisions of the trust deed constituting and securing the debenture stock. However, it is not the Company's present intention to redeem the debenture stock before the final redemption date. Accordingly the debenture stock has been included in amounts falling due after one year by reference to the final redemption date. The debenture stock is secured by way of a floating charge on all of the Company's assets.

17 Financial instruments

(i) Management of risk

The Group's financial instruments may comprise:

- equity and non-equity shares and fixed interest securities that are held in accordance with the Group's investment objective as set out on page 1 of the report and accounts;
- debenture stock, preference stock, term loans and bank overdrafts, the main purpose of which is to raise finance for the Group's operations; and
- cash, liquid resources and short term debtors and creditors that arise directly from the Group's operations.

It is, and has been throughout the year, and throughout the prior year, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are market price risk and interest rate risk. The Board regularly reviews and agrees policies for managing both these risks and they are summarised below. These policies have remained constant throughout the year, and throughout the prior year.

The Group has not utilised any derivative instruments in the period under review, nor in the prior year, and has taken advantage of the exemption allowed under Financial Reporting Standard 13 and excluded short term debtors and creditors from disclosures under financial instruments.

Market price risk

An investment trust company is exposed to market risk due to fluctuations in the market prices of the investments held in its portfolio. It is the Board's policy to hold an appropriate spread of investments in the portfolio in order to reduce the risk arising from factors specific to a particular sector. Stock selection, including investment in companies which operate internationally, acts to reduce market risk. The Fund Manager actively monitors market prices throughout the year and reports to the Board, which meets regularly to consider investment strategy.

Notes to the accounts

continued

17 Financial instruments (continued)

Interest rate risk

The Group finances its operations through its debenture stock, preference stock and term loans as well as bank overdrafts and any retained revenues arising from operations. The Group borrows at both fixed and floating rates of interest and the Board imposes borrowing limits to ensure gearing levels are appropriate to market conditions and reviews these on a regular basis.

Liquidity risk

The Group's assets comprise mainly readily realisable securities which can be sold to meet funding commitments if necessary. The maturity of the Group's existing borrowings is set out in paragraph (iii) below. Short term flexibility is achieved through the use of short term borrowing and overdraft facilities.

Credit risk

The Company places funds with authorised deposit takers from time to time and is therefore potentially at risk from the failure of any such institution of which it is a creditor. The Company expects to place any deposits on a short term basis only.

(ii) Risk profile of financial assets and financial liabilities

Financial assets

The majority of the Group's financial assets are equity shares and other investments which neither pay interest nor have a fixed maturity date.

Financial liabilities

The interest rate profile of the Group's financial liabilities (which were all in sterling) was:

	2005 £'000	2004 £'000
Floating rate financial liabilities	**7,575**	7,500
Fixed rate financial liabilities	**20,000**	20,000
	27,575	27,500

	2005	2004
Fixed rate financial liabilities:		
Weighted average interest rate	**10.5%**	10.5%
Weighted average period for which the interest rate is fixed	**11 years**	12 years

(iii) Maturity profile of the Group's financial liabilities

The Group's fixed rate financial liabilities of £20,000,000 (2004: £20,000,000) mature in more than five years. The Group's floating rate financial liabilities of £7,575,000 (2004: £7,500,000) mature in less than one year.

As at 31 May 2005 the Company had a committed short term loan facility of £20,000,000 from which £7,214,000 had been drawn at the balance sheet date (2004: committed facility of £15,000,000 from which £7,500,000 had been drawn). In addition the Company had an uncommitted overdraft facility with a sub-custodian from which £361,000 had been drawn at the balance sheet date (2004: £nil), the extent of which is determined by the sub-custodian on a regular basis by reference to the value of the securities held by it on behalf of the Company. The facilities are subject to regular review by the providers.

(iv) Currency exposure

Almost all of the financial assets and financial liabilities of the Group are denominated in sterling; therefore the net assets and total return are not significantly affected by currency movements.

Notes to the accounts

continued

17 **Financial instruments** (continued)

(v) **Fair values of financial assets and financial liabilities**

All of the financial assets of the Group are considered to be held at fair value.

Set out below is a comparison by category of the book values and fair values of the Group's financial liabilities at 31 May 2005 and 31 May 2004:

	Book value 2005 £'000	**Fair value 2005 £'000**	Book value 2004 £'000	Fair value 2004 £'000
Preference stock	**9**	**9**	9	9
Long term borrowings	**20,000**	**28,096**	20,000	26,163
Floating rate financial liabilities	**7,575**	**7,575**	7,500	7,500

The fair values shown above have been calculated by reference to prices available from the markets on which the instruments involved are traded.

18 **Called up share capital**	**2005 £'000**	2004 £'000
Authorised:		
875,000 preference stock units of £1 each (2004: 875,000)	**875**	875
188,000,000 ordinary shares of 25p each (2004: 188,000,000)	**47,000**	47,000
	47,875	47,875
Allotted, issued and fully paid:		
9,257 preference stock units of £1 each (2004: 9,257)	**9**	9
101,656,282 ordinary shares of 25p each (2004: 114,761,840)	**25,414**	28,691
	25,423	28,700

During the year the Company made market purchases for cancellation of 13,105,558 of its own issued ordinary shares. Details of these purchases are given on page 11 in the directors' report.

19 **Other capital reserves**

(a) Group	Capital redemption reserve *£'000*	Capital reserve – unrealised *£'000*	Capital reserve – realised *£'000*	Total *£'000*
At 1 June 2004	16,725	26,595	121,809	165,129
Transfer on disposal of investments (see note 2)	–	(15,388)	15,388	–
Net gains on investments	–	33,066	6,855	39,921
Purchases of own shares	3,277	–	(20,831)	(17,554)
At 31 May 2005	**20,002**	**44,273**	**123,221**	**187,496**

The capital reserve – unrealised at 31 May 2005 includes £6,420,000 in respect of the unrealised depreciation of unquoted investments (2004: depreciation of £6,419,000).

Notes to the accounts
continued

19 Other capital reserves (continued)

(b) Company	Capital redemption reserve £'000	Capital reserve – unrealised £'000	Capital reserve – realised £'000	Total £'000
At 1 June 2004	16,725	28,865	121,809	167,399
Transfer on disposal of investments (see note 2)	–	(15,388)	15,388	–
Net gains on investments	–	33,065	6,855	39,920
Purchases of own shares	3,277	–	(20,831)	(17,554)
At 31 May 2005	**20,002**	**46,542**	**123,221**	**189,765**

The capital reserve – unrealised at 31 May 2005 includes £4,151,000 in respect of the unrealised depreciation of unquoted investments (2004: £4,149,000).

20 Revenue reserve

	Group £'000	Company £'000
At 1 June 2004	3,714	1,444
Retained revenue for the year	447	448
At 31 May 2005	**4,161**	**1,892**

As permitted by section 230 of the Companies Act 1985, the Company has not presented its own revenue account. The net revenue on ordinary activities after taxation of the Company amounted to £1,564,000 (2004: £1,372,000).

21 Non-equity interests

	2005 £'000	2004 £'000
Shareholders' funds are analysed between equity and non-equity interests as follows:		
Equity	**217,071**	197,534
Non-equity	**9**	9
	217,080	197,543

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

Notes to the accounts

continued

22 Group reconciliation of movement in shareholders' funds	Group 2005 £'000	Group 2004 £'000	Company 2005 £'000	Company 2004 £'000
Net return on ordinary activities after taxation	**1,563**	1,371	**1,564**	1,372
Dividends	**(1,116)**	(1,148)	**(1,116)**	(1,148)
	447	223	**448**	224
Increase in other capital reserves	**39,921**	57,939	**39,920**	57,938
Purchases of own ordinary shares	**(20,831)**	(3,109)	**(20,831)**	(3,109)
Net increase in shareholders' funds	**19,537**	55,053	**19,537**	55,053
Shareholders' funds at 1 June	**197,543**	142,490	**197,543**	142,490
Shareholders' funds at 31 May	**217,080**	197,543	**217,080**	197,543

23 **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 £217,071,000 (2004: £197,534,000) and on the 101,656,282 ordinary shares in issue at 31 May 2005 (2004: 114,761,840) (see note 18).

An alternative net asset value per ordinary share can be calculated by deducting from the total assets less current liabilities of the Group the preference stock and the debenture stock at their market (or fair) values rather than at their par (or book) values. Details of the alternative values are set out in note 17(v). The net asset value per ordinary share at 31 May 2005 calculated on this basis was 205.6p (2004: 166.8p).

The Company has no securities in issue that could dilute the net asset value per ordinary share.

The movement during the year of the assets attributable to the ordinary shares was as follows:

	£'000
Total net assets at 1 June 2004	197,543
Less: preference stock	(9)
Net assets attributable to the ordinary shares at 1 June 2004	197,534
Total net return on ordinary activities after taxation	41,484
Dividends appropriated in the year:	
ordinary shares	(1,116)
Repurchase of 13,105,558 ordinary shares (see note 18)	(20,831)
Net assets attributable to the ordinary shares at 31 May 2005	217,071
Add: preference stock (see note 18)	9
Total net assets at 31 May 2005	**217,080**

24 **Contingent liabilities**

There were capital commitments of £nil as at 31 May 2005 (2004: £278,000).

Notes to the accounts

continued

25	Reconciliation of net revenue return to net cash inflow from operating activities	**2005 £'000**	2004 £'000
	Net revenue return before interest payable and taxation	**4,017**	3,615
	Decrease/(increase) in prepayments and accrued income	**265**	(231)
	Increase/(decrease) in creditors	**131**	(43)
	Overseas withholding tax suffered	**(3)**	(85)
		4,410	3,256

26	Analysis of changes in net debt	At 1 June 2004 £'000	Cashflow £'000	**At 31 May 2005 £'000**
	Net cash:			
	Cash at bank/(bank overdraft)	488	(849)	**(361)**
	Debt:			
	Debts falling due within one year	(7,500)	286	**(7,214)**
	Debts falling due after more than one year	(20,000)	–	**(20,000)**
		(27,500)	286	**(27,214)**
	Net debt	(27,012)	(563)	**(27,575)**

27 Transactions with the Investment Manager

Under the terms of an agreement dated 31 March 1995, the Company has appointed wholly owned subsidiaries of Henderson Global Investors (Holdings) plc ("Henderson") and BNP Paribas Fund Services UK Limited (until 5 June 2004 named Cogent Investment Operations Limited) to provide investment management, UK custodial, accounting, administrative and company secretarial services. Henderson has contracted with BNP Paribas Fund Services UK Limited to provide accounting, administrative and custody services.

Details of the fee arrangements for these services are given on pages 9 and 10 in the directors' report. The total of the fees payable to Henderson under this agreement in respect of the year ended 31 May 2005 was £968,000 (excluding VAT) (2004: £772,000) of which £172,000 was outstanding at 31 May 2005 (2004: prepaid £78,000).

In addition to the above services, Henderson has provided the Company with share plan marketing and administration services. The total fees paid or payable for these services for the year ended 31 May 2005 were £15,000 (excluding VAT) (2004: £12,000). In respect of the share plan services £6,000 was outstanding at 31 May 2005 (2004: £5,000).

General shareholder information

Release of results

Half year results are announced in January. Full year results are announced in July.

AGM

The annual general meeting is held in London in September.

Dates of dividend and interest payments

Ordinary shares: final dividend announced in July and paid in October.

10½% debenture stock 2016: interest paid on 31 May and 30 November.

Final dividend warrants and tax vouchers

Dividend warrants and tax vouchers for the 2005 final dividend will be posted on 5 October 2005 to shareholders on the register on 2 September 2005. The dividend will be paid on 7 October 2005, subject to approval at the AGM.

Payment of dividends

Dividends can be paid to shareholders by means of BACS; mandate forms for this purpose are available from the Registrar. Alternatively, shareholders can write to the Registrar (the address is given on page 36 of this report) to give their instructions; these must include the bank account number, the bank account title and the sort code of the bank to which payments are to be made.

Share price listings

The market price of the Company's ordinary shares is published daily in The Financial Times and in other leading newspapers. The Financial Times also shows figures for the estimated net asset value and the discount.

Internet

Details of the Company's share price and net asset value can be found on the Henderson website. The address is **www.itshenderson.com**

SEDOL number

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

Disability Act

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

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

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

For investors in the Henderson Investment Trust Share Plan, Henderson PEP or Henderson ISA a textphone telephone service is available on 020 7850 5406. This service is available during normal business hours.

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 Investment Trust Share Plan, PEP or ISA receive all shareholder communications. A form of instruction is provided to facilitate voting at general meetings of the Company.

History

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

Notice of annual general meeting

Notice is hereby given that the one hundred and seventeenth Annual General Meeting of The Henderson Smaller Companies Investment Trust plc ("the Company") will be held at 4 Broadgate, London EC2M 2DA on Friday 30 September 2005 at 2.00 pm for the following purposes:

Ordinary Business

1 To receive the directors' report and the audited accounts for the year ended 31 May 2005.

2 To approve the directors' remuneration report for the year ended 31 May 2005.

3 To approve a final dividend.

4 To re-elect Mr J D Fishburn as a director of the Company.

5 To re-elect Mr P V S Manduca as a director of the Company.

6 To re-elect Mr J M P Taylor as a director of the Company.

7 To re-appoint PricewaterhouseCoopers LLP as the auditors of the Company.

8 To authorise the directors to determine the auditors' remuneration.

Special Business

To consider and, if thought fit, pass the following resolutions:

as a Special Resolution

9 THAT the Company be and is hereby authorised in accordance with section 164 of the Companies Act 1985 ("the Act") to purchase (within the meaning of section 163 of the Act) the preference stock units of £1 each in the capital of the Company (prior to 1 May 1999, the 4½ per cent. cumulative preference stock units of £1 each in the capital of the Company) (the "Preference Stock") pursuant to contracts arising from acceptance of the offer to purchase Preference Stock made by the Company on the terms described in the Circular to holders of ordinary shares and Preference Stock dated 24 February 1999.

as a Special Resolution

10 THAT the Company be and is hereby generally and unconditionally authorised in accordance with section 166 of the Companies Act 1985 ("the Act") to make market purchases (within the meaning of section 163 of the Act) of ordinary shares of 25p each in the capital of the Company ("Ordinary Shares"), provided that:

(a) the maximum number of Ordinary Shares hereby authorised to be purchased shall be 15,219,539 (representing approximately 14.99% of the Ordinary Shares at 3 August 2005, the date of this Notice of annual general meeting);

(b) the minimum price (exclusive of expenses) which may be paid for an Ordinary Share is 25p;

(c) the maximum price (exclusive of expenses) which may be paid for an Ordinary Share is an amount equal to 105% of the average middle market quotations for an Ordinary Share taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Ordinary Share is purchased, or such other amount as may be specified by the UK Listing Authority from time to time;

(d) the authority hereby conferred will expire at the conclusion of the annual general meeting of the Company in 2006 unless such authority is renewed prior to such time; and

(e) the Company may make a contract to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of Ordinary Shares pursuant to any such contract.

By order of the Board
G S Rice
For and on behalf of
Henderson Secretarial Services Limited,
Secretary
3 August 2005

Notice of annual general meeting
continued

Notes

(i) Only those ordinary shareholders registered in the register of members of The Henderson Smaller Companies Investment Trust plc at close of business on Wednesday 28 September 2005 shall be entitled to attend and vote at the annual general meeting ("the meeting") in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after close of business on 28 September 2005 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

(ii) A shareholder entitled to attend and vote at the meeting may appoint one or more proxies to attend and, on a poll, to vote on his or her behalf. A proxy need not be a member of the Company.

(iii) A form of proxy is enclosed, together with a reply paid envelope. To be valid the form of proxy must be completed and deposited at the office of the Registrar to the Company not less than 48 hours before the time appointed for holding the meeting. The return of the form of proxy duly completed will not preclude a shareholder from attending and voting in person at the meeting.

(iv) This notice is sent for information only to holders of the preference stock and the debenture stock who are not entitled to attend or vote at the meeting.

(v) The register of directors' interests, kept by the Company in accordance with the requirements of the Companies Act 1985, will be available for inspection at the meeting.

(vi) The attendance at the meeting of members and their proxies and representatives is understood by the Company to confirm their agreement to receive any communications made at the meeting.

Registered Office:
4 Broadgate, London EC2M 2DA

Directors and other information

Directors
J D Fishburn (Chairman)
S M Davis
P V S Manduca
J J Nelson
J M P Taylor

Investment Manager
Henderson Global Investors Limited,
represented by N M Hermon and T Wat

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

Company Secretary
Henderson Secretarial Services Limited,
represented by G S Rice ACIS

Registered Office
4 Broadgate
London EC2M 2DA

Telephone: 020 7638 5757

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

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