31506

Henderson Electric and General Investment Trust plc

Report & Accounts for the year ended 31 May 2004

Contents

Henderson Electric and General Investment Trust plc is an international portfolio of companies selected for their prospects of above average capital growth.

Investment strategy

Global trends are reviewed by the manager and the directors at board meetings and a framework established for the geographical deployment of assets, the level of gearing and currency exposure.

Stock selection

Stocks are selected from the universe of small, medium and large companies. The principal criteria include the prospects for growth; the strength of the business franchise; the level of cash generation and the commitment of management.

Focused growth approach

The Company's clear objective is to focus on companies capable of significant growth.

Benchmark

Performance is measured against a benchmark comprising 50% the FTSE All-Share Index and 50% the FTSE All-World Index (total return).

Financial Highlights

	31 May 2004 in pence	31 May 2003 in pence	% change
Per ordinary share			
Net asset value	**294.19**	266.60	10.3
Earnings per share	**5.36**	5.11	4.9
Dividends – interim plus final	**4.75**	4.40	8.0
Share price	**247.00**	214.00	15.4

Performance

Total return per ordinary share

	1 year base 100	3 years base 100	5 years base 100
Net asset value†	112.2	73.3	79.1
Peer group category size-weighted average†	115.4	80.4	92.7
Benchmark*	113.6	82.0	87.5

†Source: AITC – Total return, net dividends reinvested and transaction costs excluded.

*Benchmark – 50% FTSE All-Share Index and 50% FTSE All-World Index.

Historical Record

Year to 31 May	Total assets less current liabilities in £'000	Net asset value per ordinary share in pence	Mid-market price per ordinary share in pence	Discount/ (premium) %	Gross revenue in £'000	Earnings per ordinary share in pence	Dividend per ordinary share in pence
1994*	199,745	212.9	190.5	10.5	5,479	3.43	3.20
1995	204,829	218.5	200.5	8.2	6,014	3.76	3.35
1996	267,089	276.8	249.5	9.9	7,175	4.63	3.65
1997	289,170	302.7	274.5	9.3	7,093	4.30	3.80
1998	350,811	380.1	358.3	5.8	7,660	4.85	4.00
1999*	373,616	394.0	348.5	11.6	6,903	5.39	4.00
2000	501,786	526.5	468.0	11.1	5,566	3.61	4.00
2001	413,998	419.7	399.0	5.0	6,836	4.72	4.00
2002	319,248	337.5	286.0	15.3	6,374	4.56	4.20
2003	248,701	266.6	214.0	19.7	6,430	5.11	4.40
2004	**264,349**	**294.2**	**247.0**	**16.0**	**6,349**	**5.36**	**4.75**

*Restated for changes in accounting policies.

Growth in Net Asset Value and Share Price (excluding dividends)

for the ten years from 1 June 1994 to 31 May 2004 (1 June 1994 = base 100)

Directors

***L C N Bury**
(Age 65) Appointed to the Board in 1995. Senior non executive director of the Sage Group plc and a non executive director of Service Power Technologies, he has just retired from the board of the South Staffordshire Group where he was a non executive director for 25 years and chairman for twelve. Some earlier directorships include ACT Group where he was a founder and director prior to the acquisition by Misys plc, Portals Holdings for twenty three years prior to the acquisition by De La Rue plc and Dunbar plc, where he was a founder and director for twelve years prior to its acquisition by Allied Hambro. City career includes five years at Schroders, seven years at Singer & Friedlander as well as ten years managing the investment department at Dunbar.

C D Palmer-Tomkinson
(Age 62) Joined Cazenove in 1963 and became a partner in 1972. He was responsible for International Development, especially Australia, Far East and South Africa and during that time, worked on European and UK brokerage business.
Following retirement from Cazenove, he has pursued his interests in natural resources and is now a non-executive director of Highland Gold, a mining company listed on the Alternative Investment Market.

R A F McClean
(Age 66) Appointed to the Board in 1993. He worked for thirty-four years at the Financial Times before retiring from the position of managing director. Former chief executive of the International Herald Tribune from 1994 to 1998. A director of Merrill Lynch European Investment Trust plc.

***J D W Pocock**
(Age 44) Appointed to the Board in 1999. Former chief executive of Druid Group Plc and previously worked with IBM and Andersen Consulting. Currently holds executive directorships in both the Media and Technology sectors.

***J G Ruffer**
(Age 52) Appointed to the Board in 2001. Trained as a barrister and stockbroker before moving into private client investment management in 1980, with Dunbar Fund Managers. Formerly chief investment officer of Rathbone Bros plc. He established Ruffer Investment Management Limited in 1994 and is the chief executive of Ruffer LLP.

***G P Aherne**
(Age 58) Appointed to the Board in 2003. Previously was a director of Schroder Investment Management Limited and a non-executive director of PRI Group plc. He has spent a long career managing investments, pension funds and unit trusts, with a special interest in the insurance industry.

*Independent director and member of the Audit and Management Engagement Committees which are chaired by Mr Bury.

The Management Team

Richard Carlyle
Richard joined Henderson Global Investors in 1993 as a director of the UK institutional funds. In 1999 was appointed a director of Pan European equities. Three years later was also appointed a director of the institutional equities and in 2003 was appointed co head of global equities. He took overall responsibility of running of the Company's investments in August 2003.

Richard Smith
Richard has managed the UK portfolio of Henderson Electric and General since 1986. Richard is a director of one other investment trust company and is actively involved in the day to day management of it. He specialises in the UK with an emphasis on smaller companies.

Peter Kaye
Peter took over responsibility for the North American portfolio in October 2003. He has specialised in US equities since 1996 and joined Henderson in 2002. He also manages other US funds including Law Debenture, two US retail funds and the US components of Henderson's global funds.

Michael Wood-Martin
Michael has covered the Japanese stockmarket since he joined Henderson in 1987. After spending a four year period in Henderson's Tokyo office he returned to London in 1995. He took over the running of Henderson Electric and General's Japanese portfolio in 1997.

Tim Stevenson
Tim has specialised in European investment for over eighteen years. He is a director of Henderson EuroTrust plc. He has managed Henderson Electric and General's European portfolio since 1992.

William Pitman
William joined the management team in 1995. He is a specialist in the Pacific region. He is also deputy manager of Henderson Far East Income Trust plc and Henderson TR Pacific Investment Trust plc.

Katherine Orrell ACIS
Katherine is the appointed representative of Henderson Secretarial Services Limited, the corporate Company Secretary.

Chairman's Statement

After three consecutive years of falling share prices stock markets around the World recovered in the year ending 31 May 2004.

Our net asset value per share has risen 10.3% over the year, compared to our benchmark return of 10.6% in capital terms. This benchmark comprises the FTSE All-Share Index, which rose 11.8%, and the FTSE All-World Index which was up 9.4%.

The discount to net asset value, at which our shares trade, has been narrowing steadily throughout the year, especially when compared to similar companies. We have therefore made only modest purchases of our own shares during the year but have been more active since the end of May as the narrowing of our discount seemed to stall. In total we have purchased just under 2.4m shares since our 2003 year end.

Dividends
Our income position has improved over the year and we are again recommending an increase in the final dividend, this time to 2.90p bringing the total dividend to 4.75p, an increase of 8.0% over the previous year. If approved the dividend will be paid on 20 September 2004.

Markets
The end of the formal war in Iraq coincided with a recovery in share prices. Over the summer, better economic and earnings news helped to underpin investors' more optimistic stance. Despite the impressive rise in the headline indices however, it has not been plain sailing. 2004 has seen equity markets in a more nervous mood. Initially, markets were concerned about the sustainability of the US–led economic recovery, however, as the end of the review period approached, these worries had given way to speculation that the Federal Reserve Board was poised to raise US rates. Interest rates in the UK were raised three times during the year as the Bank of England sought to rein in consumer spending and a buoyant housing market.

During the year under review we repaid our Yen loan, as we believed that economic recovery in Japan would strengthen their currency. We also repaid our US dollar loan after seeing significant dollar weakness. This leaves the £7m debenture as the only borrowing but, at present, as cash held in the portfolio is greater than £7m, we are effectively ungeared.

Corporate Governance and Board Changes
Various changes to the corporate governance requirements for listed companies generally, and to the rules governing investment companies in particular, were published in the second half of 2003. The Board accepts the purpose of these changes and our approach to implementation is set out later in this report.

Sadly Mr McClean will retire at the forthcoming AGM having been a director for eleven years. I would like to thank Richard for his patience and skill through the last few years where times have been far from easy for investors in growth companies.

Prospects
Western equity markets have traded in a relatively narrow range so far during 2004, with the S&P 500 Index stuck between 1080 and 1160 and the FTSE 100 Index staying between 4300 and 4600. Strong economic and earnings news has been offset by worries about higher US interest rates, higher oil prices and the risk of overheating in China. Looking ahead, it seems likely that Western equity markets will remain torn between the same conflicting factors. Strong economic growth and earnings growth should combine to push share prices higher, but other worries may hold them back. On balance, we expect Western equity markets to make reasonable progress over the rest of the year. In the UK interest rates have risen early, enhancing the prospects for a sustainable economic recovery. This should act as a support for the equity market.

Pacific equity markets look priced to produce good medium term returns. The benefits of the structural reforms put in place after the 1997 crises are now coming on-stream. The growth outlook is positive. Valuations are attractive, especially relative to Western companies. In the short term however, there are a number of risks, in particular in China. If we are right about the Chinese economy, this period of weakness could represent a good buying opportunity as Asian stocks would be likely to outperform in 2005.

Japan remains our most favoured equity market despite a dramatic rise from the low point in March 2003. Evidence of economic recovery has spread from industry to the consumer.

Share Buy Backs
Your Company's Board is obviously pleased to be reporting a recovery in the net asset value per share, a narrowing of the discount to net asset value at which the shares trade and a consequent recovery in the share price.

However, your Board has decided to do more to encourage this recovery. We will commit at the Annual General Meeting to your Company repurchasing a minimum number of shares before the end of May 2005. This will be done providing the shares can be purchased at a reasonable discount to net asset value and will therefore be in the interests of all shareholders. Our current position of being effectively ungeared and of being cautiously optimistic about the future for equity markets underlines the merits of this policy.

As I said a year ago, our central objective remains to invest in growth companies wherever they can be found. However, we also wish to continue to be in a position to raise the dividend following on this year's above average increase. We do not see an inconsistency between this and continuing to emphasise growth companies since capital and income growth often go hand in hand. In addition, we are committed to further reducing the discount to net asset value at which our shares trade.

L C N Bury
Chairman
16 July 2004

Manager's Review

The year under review brought a welcome return to rising share prices.

Throughout most of the year, our strategy was to remain fully invested in stocks to benefit from the strong rebound in stock markets. This only changed in the first quarter of 2004 when concerns over increases in US interest rates, the oil price and a slowdown in the rapidly growing Chinese economy caused us to retreat to a net cash position, where we remain today.

Although all major markets rose over the period the rise was, as always, far from even around the World. The strongest major market was Japan (up 33.7%) where, after what seems like a lifetime of false dawns, the economy finally started to grow again. The weakest major market, at least to a sterling-based investor, was the US where the weak dollar reduced the year's return to a modest 5.6%. The UK market sat neatly in the middle with a 15.5% total return. This background was a favourable one for your Company as we stayed overweight Japan and underweight the US against our benchmark position for the entire year. We retain that bias at the moment.

Less favourable for the performance of your Company was the disappointing relative performance of growth stocks around the World. In what, on the surface, should have been a good environment for growth stocks (i.e. recovering economies and low interest rates) investors seemed reluctant to raise the valuations of rapidly growing companies far above their more pedestrian cousins. Around the World 'growth companies' tended to underperform the wider indices and against this background our stock selection results were disappointing.

Prospects

For the last few months investors have had a longer than normal list of things to worry about, US economic imbalances, commodity prices and the ever present threat of terrorism. As those worries are assimilated and, more importantly, as company profits continue to rise, we believe stock markets can resume their upward path. We have seen "mid-cycle corrections" before and this one seems to be fairly well advanced. Our preference for Japan remains as strong as ever and although the Index has already risen over 70% from its 2003 low it is still only standing at less than a third of its highest ever level.

As the stock market recovery resumes the scope for our faster growing investments to produce superior returns remains significant.

From meetings with many of the major shareholders it is clear that there is space in the market for a growth oriented global investment trust. The increase in the dividend and money to buy back shares are signs of our confidence in the future.

R T Carlyle
16 July 2004

United Kingdom Portfolio

Review

UK share prices made reasonable progress over the year with the FTSE All-Share Index recording a return of just under 12% in capital terms. Following the strong rise from the March 2003 lows, the year from end May 2003 has been more mixed, but with an upward trend. Several factors have contributed to the fluctuations including interest rates which have been rising in quarter points since early November in an effort to restrain the surge in house prices. Now standing at 4.5%, after the recent rise in early June, there has been no discernible impact on consumer confidence as yet. The sharp rise in the oil price has been more of a concern as has the weakness of the US dollar which is likely to continue to struggle while the US current account deficit hits record levels.

Company profits have been rising against a background of an improving economy although much of the benefit has come from an increase in margins following a period of cost cutting and reorganisation. As turnover climbs with increased activity, profits should improve further this year and next.

Portfolio Activity

The emphasis within the UK portfolio continues to be on medium-sized companies where the growth potential is significant, the visibility of earnings good, the valuation reasonable given the potential growth and the competitive position strong. The big holdings, which were held last year, have produced mixed returns with **Galen** again ahead of the Index but both **MFI** and **Cobham** just behind the Index return. We believe the prospects for those companies remain excellent.

£'000			% of total portfolio
*9,555	BP	*oil exploration & production*	3.8
*8,978	Vodafone	*mobile telephone operator*	3.6
*6,555	GlaxoSmithKline	*pharmaceuticals*	2.6
*6,308	Shell Transport & Trading	*oil exploration & production*	2.5
*5,765	Royal Bank of Scotland	*banking*	2.3
*5,615	Galen	*pharmaceuticals*	2.2
*5,440	Cobham	*aerospace & specialist engineering*	2.2
*4,925	MFI Furniture	*furniture retailer*	2.0
*4,126	HSBC	*banking*	1.6
*3,570	HBOS	*banking*	1.4
3,535	Sage Group	*computer software*	1.4
3,165	Cairn Energy	*oil exploration & development*	1.3
3,024	Yell	*directories*	1.2
3,020	BT	*telecommunications*	1.2
2,957	Rio Tinto	*mining*	1.2

£'000			% of total portfolio
2,919	Prudential	*insurance*	1.2
2,896	Northern Rock	*banking*	1.2
2,720	BAA	*airport management*	1.1
2,565	Punch Taverns	*pub operator*	1.0
2,499	Hanson	*building materials*	1.0
2,463	Unilever	*food production*	1.0
2,340	Land Securities	*property*	0.9
2,313	Premier Farnell	*component distributor*	0.9
2,287	AstraZeneca	*pharmaceuticals*	0.9
2,277	Interserve	*services for construction & related industries*	0.9
2,140	Barclays	*banking*	0.9
2,093	Smiths	*aerospace & medical equipment*	0.8
2,090	National Express	*national operator of buses & trains*	0.8
2,030	Wimpey (George)	*housebuilding*	0.8
1,995	Pearson	*publishing*	0.8

Several new mid-cap holdings have been added. They include **Cairn Energy, Acambis** and **Cattles**. Cairn Energy has announced significant oil discoveries in India and continues to drill new wells which could extend the recoverable reserves yet further. Acambis develops vaccines to prevent and treat infectious diseases and is a leading producer of smallpox vaccines. Cattles offers loans and hire purchase credit facilities to individuals as well as working capital finance to small and medium-sized companies. A smaller company, **First Technology,** is also a new holding and we believe it has exciting prospects in the specialist area of sensors.

EasyJet proved to be a disappointing investment after showing a good profit initially but **Punch Taverns** has produced significant returns since it was first purchased in November.

Outlook

The outlook for corporate profits continues to be encouraging and valuations are not demanding in relation to the likely earnings growth. The level of dividends should also be supportive leaving scope for share prices to rise further this year. There will be periods of hesitation because interest rates will continue to rise until there are more visible signs of a slowdown in house prices and also we have yet to feel the full impact of the higher-than-expected oil price. Nevertheless, by focusing on companies with predictable earnings growth, it should be possible to produce positive returns again this year for shareholders.

£'000			% of total portfolio
1,836	T & F Informa	*scientific journals & books*	0.7
1,758	Marconi	*telephone equipment*	0.7
1,632	WPP	*advertising*	0.7
1,596	BTG	*technology patents & licences*	0.6
1,542	Hiscox	*Lloyds corporate underwriter & specialist insurance*	0.6
1,527	ARM	*semiconductors*	0.6
1,364	Capital Radio	*local radio*	0.5
1,335	Imperial Tobacco	*tobacco*	0.5
1,293	Lloyds TSB	*banking*	0.5
1,212	Serco	*support services*	0.5
1,144	Kingfisher	*international DIY retailer*	0.5
1,027	1st Technology	*sensor technology*	0.4
983	Cattles	*credit finance*	0.4
890	Legal & General	*insurance*	0.4

£'000			% of total portfolio
†867	Herald Ventures	*technology venture fund*	0.3
842	Xansa	*business process & its services*	0.3
812	Acambis	*vaccine development*	0.3
725	Henderson Strata	*investment trust*	0.3
620	Tullow Oil	*oil & gas exploration & development*	0.2
613	British Sky Broadcasting	*media*	0.2
595	Easyjet	*airline*	0.2
581	ITNET	*computer systems management*	0.2
556	GWR Group	*local radio*	0.2
381	British Airways	*global airline*	0.2
316	Diagonal	*computer software installation*	0.1
†144	Ubinetics	*wireless technology*	0.1
†107	HUGE	*venture capital fund*	0.1
138,463			55.0

†Unquoted investments

*Included in the top ten equity investments by value

North America Portfolio

Review

The year to the end of May 2004 was the first reporting period in the last four in which the S&P 500 did not fall. In US dollar terms the increase in this broad US Index was 16.3%, continuing the rally which began in March 2003 after the conclusion of the conflict in Iraq.

Economic data, having been mixed at the start of 2003, turned much more positive from the summer onwards. Manufacturing, in particular, has started to pick up as reflected in the significant improvement in the ISM manufacturing survey. This indicator reached the highest level recorded in 20 years in December. Overall reported corporate profit growth for the market has been strong in recent quarters, exceeding even the most aggressive expectations.

Portfolio Activity

Additions to the portfolio have generally been unique situations in under-appreciated companies with good growth prospects. For example we purchased a new holding in the computer company **Apple**. This company has a strong history in innovation as recently demonstrated by its iPod portable music device and the iTunes music website. The company's profit margin remains depressed versus historical levels and the management is focused on driving this higher. A high level of cash on the balance sheet distorts the valuation making it look more attractive than most earnings based measures would suggest. Another new purchase was in **Harley Davidson**. This motor bike manufacturer fell on hard times in 2003 and its shares suffered accordingly. We purchased our holding at the start of 2004 as the company began to show an improvement in fundamentals and the valuation had contracted well below the historical average. Over the reporting period one of our strongest performers was the new holding in **C. R. Bard**. This medical devices company has refocused its strategy on new product generation after a failed takeover bid from Tyco. The fruits of this new product strategy are now being felt in strong revenue growth and a more aggressive outlook. After strong performance we have taken some profits in the internet-based auction company **eBay**. The

£'000			% of total portfolio
1,512	Pfizer	*pharmaceuticals*	0.6
1,368	Citigroup	*diversified financials*	0.5
1,234	General Electric	*electrical equipment*	0.5
1,197	Microsoft	*computer software*	0.5
1,137	Bard (CR)	*healthcare equipment & supplies*	0.5
1,075	CVS	*food & staples retailer*	0.4
1,024	Goldman Sachs	*capital markets*	0.4
974	Proctor & Gamble	*household products*	0.4
954	Apple Computer	*computer & peripherals*	0.4
953	International Game Technology	*hotels, restaurants & leisure*	0.4

£'000			% of total portfolio
935	Tyco International	*industrial conglomerates*	0.4
858	Guidant	*healthcare equipment & supplies*	0.3
853	Wachovia	*banking*	0.3
852	Shoppers Drug	*food & staples retailer*	0.3
840	Harley Davidson	*automobiles*	0.3
836	Amgen	*biotechnology*	0.3
818	Time Warner	*media*	0.3
808	Disney (Walt)	*media*	0.3
803	Northern Trust	*capital markets*	0.3
801	Abbott Labs	*pharmaceuticals*	0.3

growth at eBay remains relentless and is currently powered by expansion into overseas markets such as the UK. The market position the company enjoys is near unassailable providing highly profitable growth. However, given the extent of the performance in the shares and the potential for a slowdown in its growth rate we have reduced our significant holding.

Outlook

The powerful drivers of liquidity, economic growth and low inflation, which have driven the US equity market over the last year, remain generally intact. However, there are an increasing number of negative factors which could lead to a more volatile market going forward. The oil price which recently reached an all time high, the prospect of higher interest rates and a slowing in corporate profit growth are likely to lead to a more mixed environment over coming months.

As a result of this outlook we are focusing on identifying high quality growth companies with less dependency on the macro-economic environment. We continue to seek individual companies where growth prospects are strong and where market expectations are likely to be beaten.

£'000			% of total portfolio
745	Autodesk	*speciality retail*	0.3
724	Stryker	*healthcare equipment & supplies*	0.3
705	Cisco Systems	*communication equipment*	0.3
703	Ebay	*internet & catalogue retail*	0.3
679	Intel Corp	*semiconductors*	0.3
652	Sysco	*food & staples retailer*	0.3
643	Ecolab	*healthcare supplies*	0.3
642	EOG Resources	*oil & gas*	0.3
635	Kimberley Clark	*household products*	0.3
615	Conagra Foods	*food products*	0.3

£'000			% of total portfolio
581	Univision Communications	*media*	0.2
529	Novell	*software*	0.2
528	EMC	*computer & peripherals*	0.2
495	Chico's Fas	*speciality retail*	0.2
493	Avaya	*communication equipment*	0.2
486	Veritas	*software*	0.2
306	Comverse Technology	*computers & peripherals*	0.1
305	Schlumberger	*energy supplies*	0.1
305	Nextel Communications	*wireless telecommunication services*	0.1
50	Hospira	*healthcare equipment & supplies*	0.0
30,653			12.2

Continental Europe Portfolio

Review

The news in Europe has been dull for most of the twelve months to the end of May 2004. European economic performance can at best be described as lacklustre, politics as the same as usual, but, (and here is the good news) companies themselves have actually been doing quite well. Stockmarkets have produced a reasonable return of just over 15% assisted by a more stable picture in the US. Just as we suspected when writing this report a year ago, the situation has not been as bad as some suggested. The key factor is that European companies are not waiting for help from outside but are doing what they can to help themselves in a dull and difficult environment.

Portfolio Activity

As it became clear that the US economic recovery would help European economies, so the "heavy cyclicals" did well. This has been an area which the primarily growth oriented E&G has avoided, but we have benefited from exposure to logistics and post group **Deutsche Post** and engineer **Sandvik**, and the shipping, oil and retail behemoth **Maersk**. Another source of good performance was technology, and some European names such as Ericsson have had a huge rally. Sadly we largely missed this opportunity because we have been too cautious about the durability of the recovery in their business in the face of intense competition. The path we have followed for the European portion of the portfolio has been similar to previous years, namely the pursuit of quality growth or reliable growth companies. Some of these (such as **Puma**) have been good performers, as have some of the mid-cap pharma companies such as **Schering** and **Altana**, while the big cap **Novartis** has been dull. We have sold a number of companies in the service sector where competition has become intense and our confidence in management has waned. **Elior** and **Sodexho** in the catering business have both been struggling and we have sold our positions.

£'000			% of total portfolio
3,225	Deutschland (Rep of) 4.75% 4/07/2028	*fixed interest*	1.3
2,062	Fresenius	*healthcare*	0.8
1,932	Alleanza	*insurance*	0.8
1,837	Puma	*sportswear*	0.7
1,802	AP Moller-Maersk	*transport*	0.7
1,554	Henderson European Smaller Companies Fund	*open ended investment company*	0.6
1,502	Essilor	*spectacles*	0.6
1,466	Novartis	*pharmaceuticals*	0.6
1,434	Roche	*pharmaceuticals*	0.6
1,433	Altana	*pharmaceuticals*	0.6

£'000			% of total portfolio
1,430	ISS International	*cleaning services*	0.6
1,362	ING	*banking & insurance*	0.5
1,352	Swedish Match	*tobacco related products*	0.5
1,307	Deutsche Post	*support services (post & logistics)*	0.5
1,281	Total	*oil exploration & production*	0.5
1,262	Fraport	*airport operator*	0.5
1,246	Philips Electronics	*electronics*	0.5
1,245	Deutsche Boerse	*stock market operator*	0.5
1,232	Fortis	*banking & insurance*	0.5
1,228	Sandvik	*engineering*	0.5

Outlook

European markets look as good, if not better, value than they did a year ago relative to their own earnings growth, interest rates and history. Compared with the US market they look even better, but it should never be forgotten that US companies have generally produced better returns. If the impetus for the markets remains what companies can do for themselves, then there is scope for these markets to increase from here. There is unlikely to be anything other than dull news on the economic front.

We realise that we have missed some opportunities to pick up some of the more aggressive recovery situations, but currently feel that it would be wrong to chase these. We are likely therefore to continue with our focus on those growth companies which have a greater degree of predictability.

The encouraging point is from companies themselves. With low growth and low inflation likely to be the hallmark of the next few years, European companies realise that they cannot rely on anyone else to help them improve their profitability. It is clear that this has started and it is now a question of vigilant patience.

£'000			% of total portfolio
1,196	Schering	*pharmaceuticals*	0.5
913	France Telecom	*telecommunications*	0.4
893	Red Electrica	*utility*	0.3
893	Aegon	*insurance*	0.3
725	Public Power	*utility*	0.3
712	Koninklijke	*telecommunications*	0.3
36,524			14.5

Emerging Markets Portfolio

£'000			% of total portfolio
864	Grasim Industries	*building materials*	0.3
864			0.3

Japan Portfolio

Review

Japanese equities performed strongly over the period thereby breaking a three year losing streak. Domestic oriented sectors lead the market as the economy recovered and as the banks' bad debt situation improved. Banks and real estate stocks were amongst the best performers. Strength in the Chinese economy provided demand for Japanese exports and steel stocks benefited from this trend. Smaller cap stocks also rose sharply as domestic retail investors' confidence returned. While the yen depreciated a little, the return of over 33% in sterling terms made Japan the best performing major market over the year. The Company had a sizeable weighting in Japan over the period.

Portfolio Activity

The portfolio had an active year. Most notable were the changes in sector exposure where the weighting in technology was reduced in favour of both the industrial and service sectors. This move reflected growing confidence in domestic economy recovery and less reliance on overseas markets. A number of new positions were established which included **NRI**, a software company, **Yamato Transport** and **Lawson**, a convenience store operator. Two positions were sold outright. **Kyocera,** an electronics company, was sold after a strong run-up in the share price warranted a sale. One of the more disappointing actions that was undertaken was the sale of **Takefuji**, a consumer finance stock, following changes to the management. The poor performance of Takefuji along with positions in the telecom sector were largely responsible for the Company falling behind Index returns. The telecom exposure has been maintained in anticipation of improving earnings while the bias of the portfolio towards domestic sectors should benefit from a strengthening economy.

Outlook

The outlook for the equity market remains positive notwithstanding the gains made over the past year. Profits are forecast to rise further and the domestic economic recovery is exhibiting greater breadth than in previous upturns. Equities are cheaply rated and dividends are being raised, a positive reflection of changes being made by corporate management. A higher dividend yield may attract domestic institutional investors back into the equity market. While growing uncertainties in other parts of the World are cause for concern, which might unsettle the influential foreign investor, a revival in Japan's domestic economy could prove to be relatively insulated to external events.

£'000			% of total portfolio
2,358	Mitsubishi Tokyo Financial	*banking*	0.9
2,159	Ito-Yokado	*retailer*	0.9
2,025	Toppan Printing	*commerce*	0.8
2,015	Tokyo Broadcasting Systems	*communications*	0.8
1,869	NTT Docomo	*communications*	0.7
1,838	Keyence	*electronics*	0.7
1,797	Nippon Telegraph & Telephone	*communications*	0.7
1,695	Daiwa Securities	*stockbroker*	0.7
1,664	Canon	*electronics*	0.7
1,578	Secom	*security services*	0.6

£'000			% of total portfolio
1,428	Mitsui	*commerce*	0.6
1,253	Bridgestone	*rubber products*	0.5
1,249	Lawson	*retailer*	0.5
1,196	Yamato Transport	*transport*	0.5
1,152	Toshiba	*electronics*	0.5
1,128	Nomura Research Institute	*services*	0.4
1,058	Sony	*electronics*	0.4
993	Pioneer	*electronics*	0.4
28,455			11.3

Pacific Portfolio

Review

All Pacific stock markets produced substantial positive returns over the period under review, after rallying strongly off the acute lows that resulted from the combined impact of the SARs epidemic and more general economic and political uncertainties. With the easing of these concerns, investors instead focused on the prospect of an export recovery feeding through into stronger domestic demand. China was the epicentre of this process, with its extraordinary growth having wide repercussions, in particular for global commodity markets. Towards the end of the period doubts over the sustainability of China's growth, together with the sell off in US bonds, caused aggressive profit taking in regional markets.

Portfolio Activity

Given the improved outlook for Asia, the bias favouring Asia was increased. At the sector level a number of more cyclical stocks were purchased, including **Bangkok Bank**, **Cathay Pacific**, **SK Telecom** and **Woodside Petroleum**. More latterly some profits were taken in response to market euphoria, with positions reduced in both **BHP Billiton** and **Samsung Electronics** and outright sales of both **Cathay Pacific** and **Siam Commercial Bank**.

Outlook

The outlook for the region is much influenced by developments in China where the authorities are trying to engineer a slowdown in economic growth. The fear is that while headline growth in China may only slow moderately, profitability could be more severely impacted. Despite stronger fundamentals elsewhere in Asia, the increase in risk aversion associated with developments in China and the promise of rising interest rates has caused a de-rating of regional equities. However, looking further out, the region's robust fundamentals should be rewarded and accordingly specific stock opportunities will be sought. Relative caution remains with regard to the Australian economy, which looks to be rolling over.

£'000			% of total portfolio
1,362	BHP Billiton	*mining*	0.5
1,243	Taiwan Semiconductor	*technology*	0.5
1,187	SK Telecom	*telecommunications*	0.5
1,186	Samsung Electronics	*technology*	0.5
1,111	Compal Electronics	*technology*	0.4
1,071	United Overseas Bank	*banking*	0.4
1,057	Chinatrust Financial	*banking*	0.4
1,021	Cheung Kong	*property*	0.4
1,016	CLP Holdings	*utility*	0.4

£'000			% of total portfolio
961	James Hardie Industries	*building materials*	0.4
945	Westpac Banking	*banking*	0.4
942	China Mobile (HK)	*telecommunications*	0.4
921	Kookmin Bank	*banking*	0.4
886	Woodside Petroleum	*oil & gas*	0.3
840	China Motor	*automobiles*	0.3
738	HSBC	*banking*	0.3
514	Bangkok Bank	*banking*	0.2
17,001			6.7

Analysis of Investments

as at 31 May 2004

	United Kingdom %	North America %	Continental Europe & Emerging Markets %	Far East & Japan %	Total 2004 %	Total 2003 %
Mining	1.2	–	–	0.5	**1.7**	2.1
Oil & Gas	7.8	0.4	0.5	0.3	**9.0**	7.6
Resources 10.7%	9.0	0.4	0.5	0.8	**10.7**	9.7
Chemicals	–	–	–	–	–	1.8
Construction & Building Materials	1.8	–	0.3	0.4	**2.5**	2.5
Basic Manufacturers 2.5%	1.8	–	0.3	0.4	**2.5**	4.3
Aerospace & Defence	3.0	–	–	–	**3.0**	3.0
Diversified Industries	–	–	–	1.1	**1.1**	0.6
Electronic & Electrical Equipment	0.4	0.6	0.5	2.0	**3.5**	4.1
Engineering & Machinery	–	0.4	0.5	–	**0.9**	1.0
General Industrials 8.5%	3.4	1.0	1.0	3.1	**8.5**	8.7
Automobiles	–	0.3	–	0.3	**0.6**	0.1
Household Goods & Textiles	–	0.7	–	–	**0.7**	–
Cyclical Consumer Goods 1.3%	–	1.0	–	0.3	**1.3**	0.1
Beverages	–	–	–	–	–	0.5
Food Producers & Processors	1.0	0.3	–	–	**1.3**	1.4
Health	–	1.7	0.8	–	**2.5**	4.5
Pharmaceuticals	6.1	0.9	2.3	–	**9.3**	7.4
Tobacco	0.5	–	0.5	–	**1.0**	0.7
Non-Cyclical Consumer Goods 14.1%	7.6	2.9	3.6	–	**14.1**	14.5
Distributors	0.9	–	–	–	**0.9**	0.8
General Retailers	2.4	1.8	1.3	1.4	**6.9**	4.2
Leisure & Hotels	1.0	0.4	–	–	**1.4**	0.4
Media & Entertainment	4.4	0.8	–	0.8	**6.0**	5.4
Support Services	2.0	–	1.1	1.4	**4.5**	6.2
Transport	2.3	–	1.2	0.5	**4.0**	3.6
Cyclical Services 23.7%	13.0	3.0	3.6	4.1	**23.7**	20.6
Food & Drug Retailers	–	–	–	–	–	0.5
Telecommunications Services	4.8	0.5	0.7	2.3	**8.3**	8.4
Non-Cyclical Services 8.3%	4.8	0.5	0.7	2.3	**8.3**	8.9
Electricity	–	–	0.6	0.4	**1.0**	–
Utilities 1.0%	–	–	0.6	0.4	**1.0**	–
Information Technology Hardware	1.3	0.7	–	0.7	**2.7**	1.0
Software & Computer Services	2.1	1.2	–	1.8	**5.1**	6.4
Information Technology 7.8%	3.4	1.9	–	2.5	**7.8**	7.4
Banks	7.9	0.3	–	2.6	**10.8**	11.9
Insurance	0.6	–	2.1	–	**2.7**	2.5
Life Assurance	1.5	–	–	–	**1.5**	2.4
Investment Companies	0.3	–	0.6	–	**0.9**	1.4
Real Estate	0.9	–	–	0.4	**1.3**	1.4
Speciality & Other Finance	0.8	1.2	0.5	1.1	**3.6**	1.6
Financials 20.8%	12.0	1.5	3.2	4.1	**20.8**	21.2
Eurobonds	–	–	1.3	–	**1.3**	4.6
Fixed Interest 1.3%	–	–	1.3	–	**1.3**	4.6
Total 2004	**55.0**	**12.2**	**14.8**	**18.0**	**100.0**	
Total 2003	51.7	14.7	16.9	16.7		100.0

There are no convertible securities in the portfolio

Report of the Directors

The directors present their report and the audited accounts of the Company for the year ended 31 May 2004.

Status

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. The Company is required to seek Inland Revenue approval of its status as an investment trust under the above mentioned Section 842 every year and this approval will continue to be sought. Inland Revenue approval of the Company's status as an investment trust has been received in respect of the year ended 31 May 2003, although this approval may be subject to review should there be any subsequent enquiry under Corporation Tax Self Assessment. The directors are of the opinion that the Company has subsequently conducted its affairs in a manner which will enable it to continue to gain such approval.

Activities and Business Review

A review of the business is given in the Chairman's Statement on page 4 and the portfolio reviews on pages 5 to 13.

Assets

At 31 May 2004 total net assets were £257.35m (2003: £236.60m) and the net asset value per ordinary share was 294.2p (2003: 266.6p), an increase of 10.3% in the year.

Revenue and Dividends

Earnings per ordinary share amounted to 5.36p (2003: 5.11p). Net revenue for the year after taxation and available for the ordinary shareholders was £4,711,000 (2003: £4,555,000). An interim dividend of 1.85p (2003: 1.85p) per ordinary share was paid on 2 February 2004 and the directors recommend that a final dividend of 2.90p (2003: 2.55p) per ordinary share be paid on 20 September 2004 to shareholders on the register of members on 30 July 2004 making a total dividend for the year of 4.75p (2003: 4.40p) per ordinary share.

Directors

All of the directors of the Company, as listed on page 3, held office throughout the year under review. Directors' retirement by rotation and re-election is subject to the Articles of Association, the Combined Code, as revised in July 2003, and by reference to the AITC's Code of Corporate Governance. Mr Ruffer will retire by rotation and, being eligible, offers himself for re-election. As he has served on the Board for more than nine years, in accordance with the revised Corporate Governance regulations, Mr Palmer-Tomkinson will retire by rotation annually and offers himself for re-election at the forthcoming Annual General Meeting.

The Board is firmly of the view, however, that length of service does not itself impair a director's ability to benefit the Company as their long-term perspective can add significant value to a well-balanced investment trust company board. However, due to his length of service the Board does not consider Mr Palmer-Tomkinson to be independent and his role and contribution will be reviewed rigorously each year.

Mr Palmer-Tomkinson retired as a managing director in the corporate finance department of Cazenove on 30 April 2002. Cazenove is one of the stockbrokers through which the Company buys, sells and lends investment on an arm's length basis in the normal course of business. Subject to these exceptions, no director was party to, or had an interest in, any contract with the Company, at any time during the year, or subsequent to the date of this report. No director has a service contract with the Company.

Mr McClean will retire from the Board at the Annual General Meeting. In accordance with current Corporate Governance guidelines, Mr Smith resigned from the Board on 18 September 2003.

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 to the Company, including time commitment. The Board seeks to encompass relevant past and current experience of various areas, the most important skill-sets being investment management, finance, marketing, financial services, risk management, custody and settlement and investment banking.

Directors' Interests

The interests of the directors in the share capital of the Company were as follows:

Ordinary Shares	31 May 2004	1 June 2003
Beneficial:		
L C N Bury	150,000	50,000
G P Aherne	5,000	0
C D Palmer-Tomkinson	50,000	50,000
R A F McClean	20,500	20,500
J D W Pocock	18,477	18,477
J G Ruffer	3,000	3,000
R W Smith*	n/a	60,672

*retired 18 September 2003.

Report of the Directors
continued

Ordinary Shares	31 May 2004	1 June 2003
Non-Beneficial:		
R W Smith*	n/a	1,400

*retired 18 September 2003.

There have been no changes in the interests of the directors since the year end and the date of this report. No director holds any interest in the debenture stock of the Company.

Substantial Share Interests

The following have declared a notifiable interest in the issued ordinary share capital as at 30 June 2004:

	Number of shares	Percentage
Henderson Saving Scheme	12,135,051	13.9
Asset Value Investors*	11,127,624	12.9
Cazenove Fund Management*	3,569,740	4.1
Legal & General Investment Management	3,360,007	3.8
Alliance Trust	3,245,520	3.7
RCM	2,706,208	3.1
Advance UK Trust	2,641,351	3.0

**(discretionary managed clients)*

Management Company

Investment management, accounting, company secretarial, administrative and UK custody services are provided to the Company by Henderson Global Investors (Holdings) plc and its subsidiaries ("Henderson") and BNP Paribas Fund Services UK Ltd formerly Cogent Investment Operations Limited.

The management fee arrangement for the year under review was 0.45% on the first £400 million of assets, 0.35% on the next £300 million of assets and 0.30% on assets in excess of £700 million. The base management fee was calculated quarterly based on the average of the net chargeable assets on the last day of the relevant quarter and the corresponding quarter in the previous year. The market value of the holding in the Henderson managed investment trust is deducted from the amount used as a basis for calculating the management fee payable to Henderson. Fees earned by Henderson on the Company's holdings in Henderson managed unit trust and offshore funds are deducted from the management fee payable to Henderson.

A performance fee was introduced with effect from 1 June 2000. The performance fee would be 15% of any outperformance of the Company's net assets over the chosen benchmark, (50% of the performance of the FTSE All-Share Index and 50% of the FTSE All-World Index, both on a total return basis, plus 2 percentage points), capped at 0.3% of net chargeable assets at the relevant year end, subject to a limit of £2 million. If in any period the Company's total investment return underperformed its benchmark, no performance fee would become payable in subsequent periods until such underperformance had been made good in full. To the extent that there was any unpaid performance over and above the capped amount then the unutilised performance may be carried forward. The performance carried forward may only be used to offset underperformance and not to enhance outperformance. The carry forward is limited to three years. No performance fee was payable in respect of the year under review.

The notice period for termination of the management agreement is twelve months.

Henderson uses certain services which are paid for or provided by various brokers. In return, it places business, which may include transactions relating to the Company, with these brokers.

In the expectation that returns will continue to come more from capital appreciation than from income, the Company charges 75% of its interest payable and management fee (as far as it relates to the maintenance of or enhancement in the value of investments) to capital. All performance fees will be charged to capital.

ISAs/PEPs

The Company is eligible for inclusion within an Individual Savings Account (ISA) and remains eligible for existing Personal Equity Plans (PEP). It is also possible to transfer existing PEP funds into the Company.

Payment of Suppliers

It is the payment policy for the financial year to 31 May 2005 to obtain the best terms for all business and, therefore, there is no consistent policy as to the terms used. In general, the Company agrees with suppliers the terms on which business will take place and it is our policy to abide by those terms. There were no trade creditors at 31 May 2004.

Auditors

Ernst & Young LLP have expressed their willingness to continue in office as the Company's auditors. A resolution to re-appoint Ernst & Young LLP as the Company's auditors and to authorise the directors to determine their remuneration will be put to the forthcoming AGM.

Nominee Code

Where shares are held in nominee companies the Company undertakes:

- to provide to nominee operators, who have indicated in advance a wish to receive them, copies of shareholder communications to distribute to their customers;
- to encourage nominee operators to advise investors that they may attend general meetings and speak at meetings when invited to do so by the Chairman.

Investors in the Henderson Investment Trust Share Plan and Henderson ISAs/PEPs receive all shareholder communications, an invitation to the Annual General Meeting and a letter of direction to facilitate voting.

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 of the net revenue of the Company 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; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

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 enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Going Concern

The directors believe that it is appropriate to continue 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.

Annual General Meeting

The notice for the Annual General Meeting ("AGM") can be found on pages 39 and 40. There are three items of special business to be considered:

Authority to Allot Shares (Ordinary Resolution 7) and Disapply Pre-emption Rights (Special Resolution 8)

The directors are seeking authority to allot authorised but unissued shares in the Company, equivalent to 5% of the Company's issued shares.

The directors are also seeking authority to issue shares equivalent to up to 5% of the Company's issued shares for cash without first offering them to existing shareholders in accordance with statutory pre-emption procedures. These powers will only be used if the allotment price is greater than the net asset value per share.

The powers to allot shares would only be used by the directors if they believe that to do so would be advantageous to the Company's existing shareholders. The directors have no intention of using the authority at the present time.

Authority to Make Market Purchases of the Company's Own Shares (Special Resolution 9)

At the AGM held in September 2003, the Company was authorised to make market purchases up to 13,181,002 of the Company's own issued shares for cancellation.

During the year the Company made market purchases for cancellation of 1,266,750 shares, with a nominal value of £63,338 and representing 1.4% of the number of shares in issue at 31 May 2003. The aggregate consideration paid for the shares was £3,074,000. The shares were bought at an average discount of 17.6% and the reason for the buybacks was to enhance net asset value per share.

Since the 31 May 2004 the Company has made market purchases for cancellation of 1,125,000 ordinary shares. The shares were purchased at an average discount to net asset value of 16.3% and the aggregate cash consideration paid by the Company for the shares, including stamp duty and commission, was £2,817,082.50.

At the date of this report, the Company had valid authority outstanding, until the conclusion of the forthcoming AGM, to make market purchases of up to 11,706,002 ordinary shares, at which time this authority will cease.

The directors are seeking shareholder approval to take authority to purchase on the London Stock Exchange up to 14.9% of the Company's issued share capital as at the date of the AGM, equivalent to 12,866,612 ordinary shares (or £643,330.60 aggregate nominal value) as at the date of this report.

Under the UK Listing Authority rules, the maximum price to be paid on any exercise of the authority must not exceed 105% of the average of the middle market quotations for the shares for the five business days immediately preceding the date of purchase. The minimum price to be paid would be 5p per share, being the nominal value per share.

The authority to purchase shares will last until the AGM of the Company in 2005, or until the whole of the 14.9% has been utilised, whichever is the earlier. The authority may be renewed by shareholders at any time.

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 either a single purchase or a series of 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 benefits to shareholders. The directors do not intend to 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 at a price that is 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 2004.

By order of the Board
K R L Orrell ACIS
For and on behalf of
Henderson Secretarial Services Limited, Secretary
16 July 2004

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 (the Code).

Throughout the year under review the Code in force was the Combined Code on Corporate Governance issued by the London Stock Exchange in 1998. A revised Combined Code on Corporate Governance was issued by the Financial Reporting Council in July 2003 (the "revised Code") which is effective for financial years beginning on or after 1 November 2003. In addition, the AITC Code of Corporate Governance was issued by the Association of Investment Trust Companies in July 2003 (the "AITC Code"). The Board has reviewed, and is in the course of applying, the additional requirements of both documents but this statement refers specifically to the Code in force during the year under review.

Application of the Code's Principles
The Board attaches great importance to the matters set out in the Code and observes its principles. It should be noted that, as an investment trust, most of the Company's day to day responsibilities are delegated to third parties and the directors are all non-executive. Thus, not all the provisions of the Code are directly applicable to the Company.

The Board and Committees
The Board currently consists of six non-executive directors, the majority of whom are independent of the Company's Manager. Their biographies, on page 3, demonstrate a breadth of investment, commercial and professional experience.

The Board meets at least eight times a year for formal Board meetings and deals with the important aspects of the Company's affairs, including the setting and monitoring of investment strategy and the review of investment performance.

The number of formal meetings of the Board and its committees held during the financial year and the attendance of individual directors are shown below. All directors attended the AGM.

	Board	Audit Committee
No. of Meetings		
Mr L C N Bury	9	2
Mr G P Aherne	10	2
Mr R A F McClean	8	2
Mr C D Palmer-Tomkinson	8	0
Mr J D W Pocock	10	2
Mr J G Ruffer	10	2

The Manager takes decisions as to the purchase and sale of individual investments. The Manager also ensures that all directors receive in a timely manner all relevant management, regulatory and financial information. Representatives of the Manager attend each Board meeting enabling the directors to probe further on matters of concern or seek clarification on certain issues. Matters specifically reserved for decision by the full Board have been defined and a procedure adopted for directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company.

The directors have access to the advice and services of the corporate Company Secretary through its appointed representative who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

The Chairman 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 where issues arise and to whom concerns can be conveyed.

The Board believes that it has at present a reasonable balance of skills, experience, ages and length of service. Accordingly, the appointment of each director retiring at the forthcoming Annual General Meeting has been reviewed by the Board prior to submission for re-election; under the Articles of Association, all directors are required to submit themselves for re-election at least every three years and it is a requirement of the revised Code that a director having served in excess of nine years should stand for re-election annually. The Board recognises the value of progressive refreshing of, and succession planning for, company boards.

The Board is of the view that length of service will not necessarily compromise the contribution of directors of an investment trust company, where continuity and experience can add significantly to the strength of a Board. No limit on the overall length of service of any of the Company's directors, including the Chairman, has therefore been imposed but directors who have served over nine years will not be considered independent. The Board as a whole considers nominations made in accordance with an agreed procedure and considered the re-election of directors at a meeting held in June 2004.

Mr Palmer-Tomkinson absented himself from the meeting during which his position was considered. Following recommendations of the Board arising from the meeting and a review of their status as independent directors, the Board (with each respective director abstaining) has concurred that each makes a valuable and effective contribution as a non-executive director, based on their individual skills, knowledge and experience and from the time they give to the Company in fulfilling their duties. The Board believes that Mr Ruffer is committed to his role as non-executive director of the Company and that his respective re-election would be in the interests of the Company.

When a new director is appointed he or she is offered a training seminar which is held by the Manager. Directors are also provided, on a regular basis, with key information on the Company's policies, regulatory and statutory requirements and internal controls. Changes affecting directors' responsibilities are advised to the Board as they arise.

All non-executive directors are appointed for an initial term of three years, subject to re-appointment and to the provisions of the Companies Act. In accordance with the existing Articles of Association, new directors stand for election at the first Annual General Meeting following their appointment.

Each director has signed a terms of appointment letter, which are available for inspection at the Company's registered office during normal business hours and will also be available at the Annual General Meeting.

Board Committees

The Board has appointed a number of committees as set out below. Copies of the terms of reference of each committee are available on request, and can be found on the Henderson website at www.itshenderson.com and www.electric-and-general.com

The Board has established an Audit Committee and a Management Engagement Committee. Both Committees have defined terms of reference and consist of all the independent non-executive directors. The Audit Committee is responsible for the review of the annual accounts and the interim report, terms of appointment of the auditors and their remuneration as well as the non-audit services provided by the auditors. It also meets with representatives of the Manager and receives reports on the quality and effectiveness of the accounting records and management information maintained on behalf of the Company. The Management Engagement Committee is responsible for the review of the terms of the management contract with the Manager.

The Board has not established a Nominations Committee to make recommendations on the appointment of new directors. The Board as a whole considers nominations made in accordance with an agreed procedure.

Directors' Remuneration

The Board as a whole considers directors' remuneration and therefore has not appointed a separate Remuneration Committee. Since the Company is an investment trust and all its directors are non-executive, the Company is not required to comply with the principles of the Code in respect of executive directors' remuneration. Directors' fees are detailed in the Directors' Remuneration Report on pages 22 and 23.

Internal Control

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 Internal Control Guidance for Directors on the Combined Code published in September 1999 ("the Turnbull guidance").
The process was fully in place from November 2000 and up to the date of approval of this annual report.

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 objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board, assisted by the Manager, undertook a full review of the Company's business risks and these are analysed and recorded in a risk map which is reviewed regularly. The Board receives each quarter from the Manager a formal report which details the steps taken to monitor the areas of risk, including those that are not directly the responsibility of the Manager, and which reports the details of any known internal control failures. The Board receives each year from the Manager a report on its internal controls which includes a report from the Manager's auditors on the control policies and procedures in operation. Steps will continue to be taken to embed the system of internal control and risk management into the operations and culture of the Company and its key suppliers.

Corporate Governance
continued

The Company does not have an internal audit function; it delegates to third parties most of its operations and does not directly employ any staff. The Board will continue to monitor the internal control procedures in order to provide assurance that it operates as intended and the directors will review from time to time whether a function equivalent to an internal audit is needed.

Relations with Shareholders
The Board is keen that the AGM be a participative event which private shareholders are encouraged to attend. The AGM is attended by the Chairman of the Board, who is also the Chairman of the Audit and Management Engagement Committees. Proxy votes received are relayed to the Meeting. After the formal meeting the Manager makes a presentation to shareholders. The Company has adopted a nominee share code which is set out on pages 16 and 17.

Twenty working days' notice of the Annual General Meeting has been given to shareholders, as required under Code provision C.2.4.

The Notice of Meeting on pages 39 and 40 sets out the business of the meeting and the special resolutions are explained more fully in the Report of the Directors on pages 15 to 18. Separate resolutions are proposed for each substantive issue.

Accountability and Audit
The statement of directors' responsibilities in respect of the accounts and a statement of going concern is set out on page 17. The Report of the Auditor can be found on page 36.

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

The 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 Manager's compliance and risk department on an ongoing basis.

Exercise of Voting Powers
The Company has approved a corporate governance voting policy 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 with all the material provisions set out in the Code throughout the accounting period to 31 May 2004.

It did not, however, comply with the following provisions, as explained above in greater detail:

- a senior non-executive director has not been identified;
- a Nominations Committee has not been established; and
- a Remuneration Committee has not been established.

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 2004.

Consideration by the Directors of Matters Relating to Directors' Remuneration

The Board as a whole considered the directors' remuneration. 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 regularly review the fees paid to the boards of directors of other investment trust companies.

Statement of the Company's Policy of Directors' Remuneration

The Board consists entirely of non-executive directors who meet at least eight 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 and receive a letter of appointment. 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. There are no long term incentive schemes provided by the Company 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 a higher fee than the other directors in recognition of the more onerous role.

The Company's Articles of Association limit the fees payable to the directors to £90,000 per annum. In the year under review the directors' fees were paid at the following annual rates:

The Chairman £18,000; the other directors £12,000.

The policy is to review these rates annually, although such review will not necessarily result in any change to the rates.

Directors' and officers' liability insurance cover is in place in respect of the directors.

The FTSE All-Share and FTSE All-World Indices have been selected for the above table as these comprise the Company's benchmark – 50% FTSE All-Share Index and 50% FTSE All-World Index.

Amount of Each Director's Emoluments

The fees payable by the Company in respect of each of the directors who served during the year, and during the year ended 31 May 2003, were as follows:

	Audited 2004	Audited 2003
L C N Bury	**£18,000**	£18,000
G P Aherne	**£12,000**	£2,000*
R A F McClean	**£12,000**	£12,000
C D Palmer-Tomkinson	**£12,000**	£12,000
J D W Pocock	**£12,000**	£12,000
J G Ruffer	**£12,000**	£12,000
R W Smith	**£3,639****	£12,000
TOTAL	**£81,639**	£80,000

* Mr Aherne was appointed 8 April 2003.
**Mr Smith retired from the Board on 18 September 2003.

No other remuneration or compensation was paid or payable by the Company during the year to any of the current or former directors. The following director; L C N Bury, received

Directors' Remuneration Report
continued

reimbursement of expenses of £3,066 (2003: £1,610) and J D W Pocock £967 (2003: nil) which relate to costs incurred in respect of Board meeting attendance during the year and in the course of other business. No reimbursement was made to any other director in this respect.

The highest paid director's emoluments thus totalled £18,000 (2003: £30,000).

Mr Smith was a director of the Company and principal fund manager, is employed and paid by Henderson Global Investors (Holdings) plc and its subsidiaries ("Henderson") for the provision of services to the Company. Under the Companies Act 1985 and the regulations referred to above, it is necessary to state the amount which he received from Henderson which relates to the management of the Company, even though the Company does not pay these emoluments to him and is not involved in their determination. The Company has been formed that the emoluments paid by the Management Company, Henderson, to Mr Smith for services to the Company in the year (including performance related bonus) were £9,000 (2003: £35,000) as analysed below:

	2004	2003
Salary and other benefits	**£9,000**	£25,000
Performance related bonus	–	£10,000
TOTAL	**£9,000**	£35,000

A contribution of £800 (2003: £3,000) was paid by Henderson on behalf of Mr Smith to a non-contributory defined benefit pension scheme.

By order of the Board
Katherine Orrell ACIS
For and on behalf of
Henderson Secretarial Services Limited, Secretary
16 July 2004

Statement of Total Return (incorporating the revenue account)

for the year ended 31 May 2004

Notes		Year ended 31 May 2004 Revenue £'000	Year ended 31 May 2004 Capital £'000	Year ended 31 May 2004 Total £'000	Year ended 31 May 2003 Revenue £'000	Year ended 31 May 2003 Capital £'000	Year ended 31 May 2003 Total £'000
2	Total capital gains/(losses) from investments	–	24,372	24,372	–	(63,222)	(63,222)
3	Income from fixed asset investments	6,024	–	6,024	5,266	–	5,266
4	Other interest receivable and similar income	325	–	325	1,164	–	1,164
	Gross revenue and capital gains/(losses)	**6,349**	**24,372**	**30,721**	6,430	(63,222)	(56,792)
5	Management fee	(602)	(603)	(1,205)	(664)	(664)	(1,328)
6	Other administrative expenses	(407)	–	(407)	(447)	–	(447)
	Net return/(loss) on ordinary activities before interest payable and taxation	**5,340**	**23,769**	**29,109**	5,319	(63,886)	(58,567)
7	Interest payable	(231)	(692)	(923)	(246)	(739)	(985)
	Net return/(loss) on ordinary activities before taxation	**5,109**	**23,077**	**28,186**	5,073	(64,625)	(59,552)
8	Taxation on net return/(loss) on ordinary activities	(398)	192	(206)	(518)	318	(200)
	Net return/(loss) on ordinary activities after taxation	**4,711**	**23,269**	**27,980**	4,555	(64,307)	(59,752)
	Dividends						
	Overprovision in prior year	3	–	3	1	–	1
	Interim paid 1.85p (2003: 1.85p)	(1,621)	–	(1,621)	(1,651)	–	(1,651)
	Final proposed 2.90p (2003: 2.55p)	(2,537)	–	(2,537)	(2,258)	–	(2,258)
		(4,155)	–	(4,155)	(3,908)	–	(3,908)
	Transfer to/(from) reserves	**556**	**23,269**	**23,825**	647	(64,307)	(63,660)
9	**Return per ordinary share**	**5.36p**	**26.48p**	**31.84p**	5.11p	(72.15)p	(67.04)p

The revenue columns of this statement represent the revenue accounts of the Company.

All revenue and capital items in the above statement derive from continuing activities.

The notes on pages 27 to 35 form part of these accounts

Balance Sheet
at 31 May 2004

Notes		2004 £'000	2003 £'000
10	**Fixed asset investments**		
	Listed in UK	**137,345**	119,503
	Listed outside UK	**111,943**	111,221
	Open Ended Investment Company	**1,554**	1,501
	Unquoted investments at directors' valuation	**1,118**	965
		251,960	233,190
	Current assets		
11	Debtors	**3,725**	1,990
	Cash at bank and short term deposits	**13,340**	28,464
		17,065	30,454
12	**Creditors:** amounts falling due within one year	**(4,676)**	(14,943)
	Net current assets	**12,389**	15,511
	Total assets less current liabilities	**264,349**	248,701
13	**Creditors:** amounts falling due after more than one year	**(7,000)**	(12,103)
	Total net assets	**257,349**	236,598
	Capital and reserves		
16	Called-up share capital	**4,374**	4,437
17	Reserves – non distributable:		
	Share premium	**19,937**	19,937
	Capital redemption reserve	**333**	270
	Realised profits	**220,046**	225,252
	Unrealised profits	**4,363**	(21,038)
17	Revenue reserve	**8,296**	7,740
	Equity shareholders' funds	**257,349**	236,598
15	**Net asset value per ordinary share**	**294.2p**	266.6p

L C N Bury Director

The accounts were approved by the directors on 16 July 2004.

The notes on pages 27 to 35 form part of these accounts

Cash Flow Statement

for the year ended 31 May 2004

Notes		2004 £'000	2004 £'000	2003 £'000	2003 £'000
19	**Net cash inflow from operating activities**		**4,724**		3,807
	Returns on investments and servicing of finance				
	Debenture interest paid	**(752)**		(753)	
	Bank overdraft and loan interest paid	**(239)**		(230)	
	Net cash outflow from servicing of finance		**(991)**		(983)
	Taxation				
	Tax recovered		**86**		54
	Financial investments				
	Purchases of investments	**(107,080)**		(91,452)	
	Sales of investments	**111,956**		88,179	
	Net cash inflow/(outflow) from financial investments		**4,876**		(3,273)
	Equity dividends paid		**(3,876)**		(3,747)
	Cash inflow/(outflow) before use of liquid resources and financing		**4,819**		(4,142)
	Management of liquid resources				
	Cash withdrawn from/(placed on) short term deposit		**15,117**		(6,092)
	Financing				
	Purchases of own ordinary shares	**(3,074)**		(976)	
	Foreign currency loans (repaid)/drawn down	**(15,555)**		5,803	
	Net cash (outflow)/inflow from movement in financing		**(18,629)**		4,827
	Increase/(decrease) in cash		**1,307**		(5,407)
20	**Reconciliation of net cash flow to movement in net funds**				
	Increase/(decrease) in cash as above		**1,307**		(5,407)
	Cash outflow/(inflow) from movement in financing		**15,555**		(5,803)
	Cash (inflow)/outflow from movement in liquid resources		**(15,117)**		6,092
	Exchange movements		**(1,038)**		1,964
	Movement in net funds		**707**		(3,154)
	Net funds at 1 June		**5,633**		8,787
	Net funds at 31 May		**6,340**		5,633

The notes on pages 27 to 35 form part of these accounts

Notes to the Accounts

1 **Accounting Policies**

a) Basis of accounting

The accounts have been prepared on the historical cost basis of accounting, modified to include the revaluation of investments. The accounts have been prepared in accordance with applicable accounting standards and with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies" (the SORP) dated January 2003.

All of the Company's operations are of a continuing nature.

b) Valuation of fixed asset investments

Listed investments in the UK are valued according to the prices issued by the London Stock Exchange, being the closing mid-market prices for all investments other than FTSE 100 constituents and FTSE 100 reserve list constituents, for which the last traded prices are used. Overseas listed investments and investments which are quoted but are unlisted are valued at their closing or middle market prices as issued by various sources.

Unquoted investments are valued by the directors taking into account the information available on the investee companies and funds held by the Company.

c) 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 non-distributable reserves.

d) Income

Dividends receivable from equity shares are credited to the revenue account on an ex-dividend basis. Bank deposit interest is accounted for on an accruals basis.

e) Administrative expenses and finance costs

Administrative expenses, including the management fee, and finance costs are accounted for on an accruals basis. Expenses which are incidental to the purchase or sale of an investment are included in the cost or deducted from the proceeds of the sale of the investment. On the basis of the Board's expected long-term split of returns in the form of capital gains and income of 75% and 25% respectively, the Company charges 75% of its finance costs and management fee (to the extent that it relates to the maintenance or enhancement of the valuation of investments) to capital.

f) Deferred taxation

Following the introduction of FRS 19, deferred taxation is provided using the liability method on all timing differences, calculated at the rate at which it is anticipated the timing differences will reverse. Deferred tax assets are recognised only when, on the basis of available evidence, it is more likely than not that there will be taxable profits in the future against which the deferred tax asset can be offset.

g) Foreign currency

Transactions denominated in overseas currencies during the year are translated into sterling at the appropriate daily exchange rates. The values of investments and other assets and liabilities denominated in foreign currencies at the balance sheet date are translated into sterling at the rate of exchange ruling at that date. Differences arising from translation at these rates of exchange are dealt with in non-distributable reserves.

h) Financial instruments

The Company has not utilised any derivative instruments in the year under review. The Company has taken advantage of the exemption allowed under Financial Reporting Standard 13, Derivatives and Other Financial Instruments: Disclosures ("FRS 13") and excluded short-term debtors and creditors from disclosures under financial instruments where allowed (see note 14 on pages 31 to 33).

2 Total capital gains/(losses) from investments	2004 £'000	2003 £'000
Realised gains/(losses) based on historical cost	**240**	(17,906)
Amounts recognised as unrealised in previous years	**6,182**	(933)
Realised gains/(losses) based on carrying value at previous balance sheet date	**6,422**	(18,839)
Net movement in unrealised appreciation	**18,988**	(46,347)
Net movement on foreign exchange	**(1,038)**	1,964
	24,372	(63,222)

3 Income from fixed asset investments	2004 £'000	2003 £'000
Franked: Listed investments	**3,748**	3,348
Unfranked: Listed investments		
Dividend income	**1,943**	1,723
Interest income	**333**	195
	6,024	5,266

4 Other interest receivable and similar income	2004 £'000	2003 £'000
Bank interest	**308**	1,093
Underwriting commission	**17**	71
	325	1,164

At 31 May 2004 there were no securities on loan from the Company for stock lending purposes (2003: £nil). The maximum aggregate value of securities on loan at any time during the year ended 31 May 2004 was £nil (2003: £nil).

5 Management fee	2004 £'000 Revenue	2004 £'000 Capital	2004 £'000 Total	2003 £'000 Revenue	2003 £'000 Capital	2003 £'000 Total
Management fee	**556**	**557**	**1,113**	624	624	1,248
Irrecoverable VAT thereon	**46**	**46**	**92**	40	40	80
	602	**603**	**1,205**	664	664	1,328

A summary of the terms of the management agreement is given on page 16 in the Report of the Directors.

6 Other administrative expenses	2004 £'000	2003 £'000
Directors' emoluments*	**82**	80
Auditors' remuneration – for audit services	**14**	12
Other expenses payable to the management company†	**92**	144
Bank charges and safe custody fees	**61**	47
Other expenses	**158**	164
	407	447

*Details of the amounts paid to directors are included in the audited part of the Directors' Remuneration Report on pages 22 to 23.

†Other expenses payable to the management company relate to share plan administration and marketing expenses.

Notes to the Accounts
continued

7 Interest payable	2004 £'000 Revenue	2004 £'000 Capital	2004 £'000 Total	2003 £'000 Revenue	2003 £'000 Capital	2003 £'000 Total
Bank loans and overdrafts	**43**	**127**	**170**	58	174	232
Debenture	**188**	**565**	**753**	188	565	753
	231	**692**	**923**	246	739	985

8 Taxation on ordinary activities	2004 £'000	2003 £'000
a) Analysis of charge in the year		
UK corporation tax at 30% (2003: 30%)	**–**	–
Foreign withholding taxes	**274**	278
Overseas taxation reclaimable	**(68)**	(78)
	206	200
Tax on management fee and finance costs charged to capital	**192**	318
	398	518

b) Analysis of charge in the year

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

	2004 £'000	2003 £'000
Net revenue on ordinary activities before taxation	**5,109**	5,073
Corporation tax at 30% (2003: 30%)	**1,533**	1,522
Franked dividend receipts not chargeable to corporation tax	**(1,124)**	(1,004)
Stock dividends	**(19)**	–
Excess expenses	**32**	(80)
Expenses charged to capital	**(196)**	(103)
Income taxable in different periods	**(23)**	(8)
Overseas withholding tax	**202**	210
Overseas withholding tax deductible as an expense	**(5)**	(64)
Expenses not deductible for tax purposes	**28**	45
Double tax relief taken	**(34)**	–
UK income tax suffered	**4**	–
Taxation on net revenue on ordinary activities	**398**	518

c) Provision for deferred taxation

There was no provision for deferred tax made for either this year or the previous year.

The Company has not recognised a deferred tax asset of £713,000 (2003: £151,000) arising as a result of excess management expenses and excess business charges. These expenses would only be utilised if the Company were to generate sufficient taxable profits in the future. It is considered too uncertain that the Company will generate such profits and therefore no deferred tax asset has been recognised.

Notes to the Accounts

continued

9 Return per ordinary share

Revenue return per ordinary share is based on the earnings attributable to the ordinary shares of £4,711,000 (2003: £4,555,000) and on the weighted average number of 87,885,445 (2003: 89,124,714) ordinary shares in issue during the year.

Capital return per ordinary share is based on the net capital gains of £23,269,000 (2003: £64,307,000 losses) and on the weighted average number of 87,885,445 (2003: 89,124,714) ordinary shares in issue during the year.

10 Changes in fixed asset investments

	Valuation 31 May 2003 £'000	Purchases £'000	Sales £'000	Appreciation £'000	**Valuation 31 May 2004 £'000**	**Cost 31 May 2004 £'000**
UK	120,468	41,908	36,317	12,404	**138,463**	**132,812**
North America	34,325	33,440	39,431	2,319	**30,653**	**30,634**
Europe and Emerging Markets	39,446	12,267	17,648	3,323	**37,388**	**33,255**
Japan	21,515	10,333	9,119	5,726	**28,455**	**33,465**
Pacific	17,436	9,185	11,256	1,636	**17,001**	**17,431**
	233,190	107,133	113,771	25,408	**251,960**	**247,597**

11 Debtors

	2004 £'000	2003 £'000
Investments sold for future settlement	**2,539**	724
Taxation recoverable	**83**	115
Prepayments and accrued income	**1,103**	1,151
	3,725	1,990

12 Creditors: amounts falling due within one year

	2004 £'000	2003 £'000
Purchases for future settlement	**1,494**	1,504
Proposed final ordinary dividend	**2,537**	2,258
Accruals	**645**	453
Foreign currency loans	**–**	10,728
	4,676	14,943

13 Creditors: amounts falling due after more than one year

	2004 £'000	2003 £'000
10.75% debenture stock 2011	**7,000**	7,000
Foreign currency loan	**–**	5,103
	7,000	12,103

The foreign currency loan outstanding at 31 May 2003 represented yen 1.0 billion at an annual interest rate of 1.6% repayable on 7 July 2004. This loan was repaid on 15 October 2003.

The debenture stock is secured by a floating charge over all the Company's assets.

Notes to the Accounts

continued

14 **Derivatives and other financial instruments**

a) Management of Risk

The Company's financial instruments comprise:

- Equity shares held within the portfolio.
- Debenture stock issued to finance its investing activities.
- Foreign currency term loans used as a cost effective method of financing its investing activities.
- Cash and short-term debtors and creditors which arise from its investing activities.

The debenture stock carries a fixed rate of interest.

The risks arising from these financial instruments are due to fluctuations in market prices, foreign currency exchange rates and interest rates on cash deposits. The Board's policy for managing these risks is summarised below:

Market price risk

An investment trust 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 country or sector. The allocation of assets to international markets together with stock selection covering small, medium and large companies are other factors which act to reduce market price risk. The Manager actively monitors market prices throughout the year and reports to the Board which meets regularly to consider investment strategy.

Foreign currency risk

The Company's total return and balance sheet can be affected by fluctuations in foreign currency exchange rates. It is the Board's policy to minimise this risk. However, from time to time the Company will hold foreign currency cash balances as well as foreign currency balances due to and receivable from brokers. These assets and liabilities arise from the Company's investing activities. The exposure is short term and therefore not considered to be material. The Company had drawn down foreign currency loans denominated in Japanese yen and US dollars, however these loans had all been repaid at 31 May 2004.

Liquidity risk

The Company's assets comprise mainly readily realisable securities, which can be sold to meet funding commitments if necessary. The maturity of the Company's existing borrowings are set out in part (c) to this note.

Interest rate risk

The Company's exposure to risk arising from interest rate fluctuations is minimal. The financial liabilities carry fixed rates of interest. The Company has cash on deposit at floating rates but these are short term and therefore carry no material risk.

b) Risk profile of financial assets and financial liabilities

Currency exposure

A significant portion of the Company's financial assets are denominated in currencies other than sterling with the effect that the balance sheet and total return can be significantly affected by currency movements.

Currency	**Monetary assets 2004 £'000**	**Monetary liabilities 2004 £'000**	**Net monetary assets 2004 £'000**	Monetary assets 2003 £'000	Monetary liabilities 2003 £'000	Net monetary assets 2003 £'000
US Dollar	**31,425**	**–**	**31,425**	34,952	(5,625)	29,327
Euro	**1,645**	**–**	**1,645**	19,914	–	19,914
Yen	**28,456**	**–**	**28,456**	21,534	(10,206)	11,328
Other European	**35,837**	**–**	**35,837**	37,963	–	37,963
Other Far East and Australia	**17,567**	**–**	**17,567**	18,265	–	18,265
	114,930	**–**	**114,930**	132,628	(15,831)	116,797

14 Derivatives and other financial instruments (continued)

Interest rate risk profile of financial assets and financial liabilities

The Company's financial assets comprise equity shares, which neither pay interest nor carry a maturity date, bank balances and short term deposits. The interest rate profile of the bank balances and short term deposits at 31 May 2004 was:

Currency	Total 2004 £'000	Floating rate financial assets 2004 £'000	Fixed rate financial assets 2004 £'000	Total 2003 £'000	Floating rate financial assets 2003 £'000	Fixed rate financial assets 2003 £'000
Sterling	**11,907**	**11,907**	**–**	8,557	3,557	5,000
US Dollar	**771**	**771**	**–**	627	627	–
Euro	**96**	**96**	**–**	18,431	8,314	10,117
Yen	**–**	**–**	**–**	20	20	–
Other Far East and Australia	**566**	**566**	**–**	829	829	–
	13,340	**13,340**	**–**	28,464	13,347	15,117

Floating rate financial assets currently earn interest at the following rates: Sterling 4.33%, US Dollar 0.90%, Euro 1.93%, Yen nil, and Australian Dollar 5.00%.

The interest rate profile of the Company's financial liabilities at 31 May 2004 was:

Currency	Fixed rate financial liabilities 2004 £'000	Fixed rate financial liabilities 2003 £'000
Sterling	**7,000**	7,000
Yen	**–**	10,206
US Dollar	**–**	5,625
	7,000	22,831

The weighted average interest rate of the fixed rate financial liabilities was 10.75% (2003: 4.44%). The weighted average period for which interest rates on the fixed rate financial liabilities are fixed is 6 years and 7 months (2003: 2 years and 10 months).

c) Maturity profile of financial liabilities

The maturity profile of the Company's financial liabilities at 31 May 2004 was as follows:

	2004 £'000	2003 £'000
In less than one year	**–**	10,728
In more than one year but not more than two years	**–**	5,103
In more than five years	**7,000**	7,000

d) Loan facility

An unsecured, committed undrawn loan facility of £10 million was available from The Royal Bank of Scotland plc. In addition the Company has an uncommitted undrawn overdraft facility with a sub-custodian, 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.

Notes to the Accounts
continued

14 Derivatives and other financial instruments (continued)

e) Fair values of financial assets and financial liabilities

All of the Company's assets are held at fair value.

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

	Book value 2004 £'000	**Fair value 2004 £'000**	Book value 2003 £'000	Fair value 2003 £'000
10.75% debenture stock 2011	**7,000**	**8,649**	7,000	9,376
Yen loan 2004	**–**	**–**	5,103	5,103
Yen loan 2004	**–**	**–**	5,103	5,206
US Dollar loan 2004	**–**	**–**	5,625	5,625

The fair value of the 10.75% debenture 2011 is calculated by reference to the market value at 31 May 2004.

15 Net asset value per ordinary share

The net asset value per ordinary share is based on the net assets attributable to ordinary shares of £257,349,000 (2003: £236,598,000) and on the 87,478,101 ordinary shares in issue at 31 May 2004 (2003: 88,744,851).

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

	£'000
Net assets attributable to the ordinary shares at 1 June 2003	**236,598**
Total net return on ordinary activities after taxation	**27,980**
Dividends	**(4,155)**
Buyback of own ordinary shares	**(3,074)**
Net assets attributable to the ordinary shares at 31 May 2004	**257,349**

16 Share capital	**2004 £'000**	2003 £'000
Authorised		
100,000,000 ordinary shares of 5p each	**5,000**	5,000
Allotted, called-up and fully paid		
87,478,101 (2003: 88,744,851) ordinary shares of 5p each	**4,374**	4,437

During the year the Company made market purchases for cancellation of 1,266,750 ordinary 5p shares for a total consideration of £3,074,000, representing 1.4% of the called up shares. The purchases were carried out to enhance the net asset value per share.

Notes to the Accounts

continued

17	Reserves	Share premium £'000	Capital redemption reserve £'000	Realised profits £'000	Unrealised profits £'000	Revenue £'000
	At 1 June 2003	19,937	270	225,252	(21,038)	7,740
	Buyback of own shares	–	63	(3,074)	–	–
	Transfer on disposal of investments	–	–	(6,182)	6,182	–
	Expenses allocated to capital	–	–	(1,295)	–	–
	Tax relief thereon	–	–	192	–	–
	Net gains on investments	–	–	6,422	18,988	–
	Net (losses)/gains on foreign exchange	–	–	(1,269)	231	–
	Retained revenue for the year	–	–	–	–	556
	At 31 May 2004	**19,937**	**333**	**220,046**	**4,363**	**8,296**

18	Reconciliation of movements in shareholders' funds	2004 £'000	2003 £'000
	Net revenue return on ordinary activities after taxation	**4,711**	4,555
	Dividends	**(4,155)**	(3,908)
		556	647
	Increase/(decrease) in non-distributable reserves	**23,269**	(64,307)
	Purchase of own shares	**(3,074)**	(976)
	Net increase/(decrease) in shareholders' funds	**20,751**	(64,636)
	Shareholders' funds at 1 June 2003	**236,598**	301,234
	Shareholders' funds at 31 May 2004	**257,349**	236,598

19	Reconciliation of operating revenue to net cash inflow from operating activities	2004 £'000	2003 £'000
	Net revenue return before interest payable and taxation	**5,340**	5,319
	Decrease/(increase) in accrued income	**38**	(542)
	Decrease in other debtors	**11**	17
	Increase/(decrease) in creditors	**262**	(66)
	Stock dividends included in investment income	**(63)**	–
	Tax on unfranked investment income	**(261)**	(257)
	Management fee charged to capital	**(603)**	(664)
	Net cash inflow from operating activities	**4,724**	3,807

20	Analysis of changes in net funds	At 31 May 2003 £'000	Cash flow £'000	Exchange movement £'000	At 31 May 2004 £'000
	Cash	13,347	1,307	(1,314)	**13,340**
	Short term deposits	15,117	(15,117)	–	–
	Debt falling due within one year	(15,831)	15,555	276	–
	Debt falling due after more than five years	(7,000)	–	–	**(7,000)**
	Total	5,633	1,745	(1,038)	**6,340**

Notes to the Accounts
continued

21 Contingent liabilities

There were contingent liabilities in respect of calls on investments of £50,000 (2003: £465,000).

There are no underwriting commitments (2003: nil).

22 Related party transactions

Under the terms of an agreement dated 9 February 1996 the Company appointed wholly owned subsidiary companies of Henderson Global Investors (Holdings) plc ("Henderson") to provide investment management, accounting, company secretarial, administrative and UK custody services. Henderson has contracted with BNP Paribas Fund Services UK Limited (formerly Cogent Investment Operations Limited) to provide accounting, administrative and UK custody services. Details of the fee arrangements for these services are given in the Report of the Directors on pages 15 to 18. The total of the fees paid or payable under this agreement to Henderson in respect of the year ended 31 May 2004 were £1,113,000 excluding VAT, (2003: £1,248,000) of which £464,000 was outstanding at 31 May 2004 (2003: £200,000).

In addition to the above services, Henderson has provided the Company with share plan administration and marketing services during the year. The total fees, excluding VAT paid or payable for these services for the year ended 31 May 2004 amounted to £84,000 (2003: £134,000) of which £43,000 was outstanding at 31 May 2004 (2003: £45,000).

The Company holds investments in funds managed by Henderson. At 31 May 2004 these were valued at £2,279,000 (2003: £3,200,000) and represented 0.9% of the Company's investment portfolio (2003: 1.4%). There were £1,831,000 sales of such stocks during the year and no purchases (2003: no purchases or sales). No income was received from these funds during the year (2003: nil). The market value of the holding in the Henderson managed investment trust is deducted from the amount used as a basis for calculating the management fee payable to Henderson. Fees earned by Henderson on the Company's holdings in Henderson managed unit trust and offshore funds are deducted from the management fee payable to Henderson.

Report of the Independent Auditor

To the members of Henderson Electric and General Investment Trust plc

We have audited the company's financial statements for the year ended 31 May 2004 which comprise the Statement of Total Return, Balance Sheet, Cash Flow Statement, and the related notes 1 to 22. These financial statements have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including the financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards as set out in the Statement of Directors' Responsibilities in relation to the financial statements.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited 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 financial statements, 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 or the Listing Rules regarding directors' remuneration and transactions with the company is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, 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 form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Investment Policy, Performance Summary, Chairman's Statement, Review of Investments, Analysis of Portfolio, Largest Investments, Directors, Investment Manager and Advisor Profiles, Company and Investor Information, Shareholder Analysis, Report of the Directors, and the unaudited part of the Directors' Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, 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 financial statements and the part of the Directors' Remuneration Report to be audited 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 financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the company as at 31 May 2004 and of its revenue for the year then ended; and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered Auditor
London
16 July 2004

Ernst & Young LLP

Company Information

Manager
Henderson Global Investors Limited
Authorised and regulated by the Financial Services Authority

Secretary
Henderson Secretarial Services Limited
represented by Katherine Orrell, ACIS

Registered Office
4 Broadgate, London EC2M 2DA
Telephone: 020 7818 1818
Facsimile: 020 7818 1819

Registrar
Computershare Investor Services PLC
PO Box 82
The Pavilions
Bristol BS99 7NH
Telephone: 0870 702 0000

Auditors
Ernst & Young LLP
1 More London Place
London SE1 2AF

Stockbroker
Cazenove
20 Moorgate
London EC2R 6DA

Solicitor
Eversheds
Senator House
85 Queen Victoria Street
London EC4V 4JL

Registered Number
Registered as an investment company in England No. 31506

Information
Share price and performance information can be found on the Henderson Global Investors website **www.electric-and-general.com** Net asset values are published daily.

The market price of the shares is published in The Financial Times and other leading newspapers.

The London Stock Exchange Daily Official List (SEDOL) Code is 0309019. Investors with Share Certificates, (ie not those in the Share Plan or an ISA or PEP Scheme) can check their holding with our Registrar, Computershare Investor Services PLC. The link can be found via **www.computershare.com**

Financial Calendar

Results
Half year announced in December

Full year announced in July

Annual General Meeting to be held at 4 Broadgate on 16 September 2004.

Dividends
Year ended 31 May 2004
Final dividend payable 20 September 2004

Year ending 31 May 2005
Interim dividend payable in February 2005

Final dividend payable in September 2005

Dividends can be paid to shareholders by means of BACS ("Bankers' Automated Clearing Services"). Mandate forms for this purpose are available on request from the Registrar.

its investment trusts
A MEMBER OF THE ASSOCIATION OF INVESTMENT TRUST COMPANIES

Disability Note

Copies of this Report and Accounts or other documents issued by the Company are available from the Company Secretary.

If needed, copies can be made available in a variety of formats, either Braille or on audio tape or larger type as appropriate.

You can contact our Registrar, Computershare Investor Services PLC, which have 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. 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 the Deaf) dial 18001 followed by the number you wish to dial.

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

Capital Gains Tax Information

In 1998 considerable changes were made to the way that chargeable gains are calculated for non-corporate shareholders in respect of disposals made on or after 6 April 1998. From that date pooling no longer applies and disposals are matched against shares acquired in the following order:

- same date acquisitions;
- acquisitions within the following 30 days;
- previous acquisitions on or after 5 April 1998 (using the 'last in first out' basis);
- any shares held in the pool as at 5 April 1998;
- any shares held in the pool as at 5 April 1982;
- any shares acquired before 6 April 1965; and
- any shares acquired subsequent to the disposal.

For disposals on or after 6 April 1998 indexation is still allowed but only up to April 1998. This has been replaced by taper relief which reduces the amount of the chargeable gain on these disposals the longer the shares are held. The taper is 5% for each complete year of ownership after the first two complete years, with a maximum reduction of 40% after ten complete years.

In calculating the tapering relief, assets held before 17 March 1998 qualify for an extra year.

The calculation of the tax on chargeable gains will depend on personal circumstances. The above information is of a general nature and is not exhaustive. If you are in any doubt about your personal tax position, you are recommended to contact your professional adviser.

Notice of Meeting

Notice is hereby given that the one hundred and fourteenth Annual General Meeting of Henderson Electric and General Investment Trust plc will be held at 4 Broadgate, London EC2M 2DA on Thursday 16 September 2004 at 12.00 noon for the purpose of transacting the following business:

Ordinary Business

1 To receive the Report of the Directors and audited accounts for the year ended 31 May 2004.

2 To approve the Directors' Remuneration Report for the year ended 31 May 2004.

3 To declare a final dividend.

4 To re-elect Mr C D Palmer-Tomkinson as a director of the Company.

5 To re-elect Mr J G Ruffer as a director of the Company.

6 To re-appoint Ernst & Young LLP as the registered auditors of the Company and to authorise the directors to determine their remuneration.

Special Business

To consider and, if thought fit, pass resolution 7 as an Ordinary Resolution and resolutions 8 and 9 as Special Resolutions:

7 THAT, the Board be and is hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985) up to an aggregate nominal amount of £215,882.75 (being 5% of the issued ordinary share capital at the date of this notice) and this authority shall expire at the conclusion of the next Annual General Meeting of the Company save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Board may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired. The directors may only use this authority when it would be advantageous to the Company's existing shareholders.

8 THAT, subject to the passing of the previous resolution, the Board be and is hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of the said Act) for cash pursuant to the authority conferred by the previous resolution as if sub-section (1) of Section 89 of the said Act did not apply to any such allotment, provided that this power shall be limited:

(a) to the allotment of equity securities whether by way of a rights issue, open offer or otherwise to ordinary shareholders and/or holders of any other securities in accordance with the rights of those securities where the equity securities respectively attributable to the interests of all ordinary shareholders and/or such holders are proportionate to the respective numbers of ordinary shares and such securities held by them (or are otherwise allotted in accordance with the rights attaching to such securities) subject in either case to such exclusions or other arrangements as the Board may deem necessary or expedient in relation to fractional entitlements or local or practical problems under the laws of, or the requirements of, any regulatory body or stock exchange in any territory or otherwise howsoever;

(b) to the allotment (otherwise than pursuant to sub paragraph (a) above) of equity securities up to an aggregate nominal value of £215,882.75 (being 5% of the issued ordinary share capital at the date of this notice); and

(c) to the allotment of equity securities at a price of not less than net asset value per share (as determined by the directors from time to time);

and shall expire at the conclusion of the next Annual General Meeting of the Company save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Board may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.

Notice of Meeting
continued

9 THAT the Company be authorised to make market purchases (within the meaning of Section 163(3) of the Companies Act 1985) of ordinary shares of 5p each in the capital of the Company ("ordinary shares") upon and subject to the following conditions:

(a) the maximum number of ordinary shares which may be purchased is 14.9% of the Company's issued ordinary share capital at the date of the Annual General Meeting equivalent to 12,866,612 ordinary shares at the date of this notice;

(b) the maximum price (exclusive of expenses) which may be paid for an ordinary share shall not exceed 105% of the average of the middle market quotations for the ordinary shares as taken from the London Stock Exchange Daily Official List for the five business days preceding the date of purchases;

(c) the minimum price (exclusive of expenses) which may be paid for an ordinary share shall be 5p being the nominal value per ordinary share; and

(d) this authority shall expire at the conclusion of the next Annual General Meeting of the Company save that the Company may, before such expiry, enter into a contract to purchase ordinary shares under which such purchases will or may be completed or executed wholly or partly after the expiration of this authority and may make a purchase of ordinary shares in pursuance of any such contract.

By order of the Board

Katherine Orrell ACIS
for and on behalf of
Henderson Secretarial Services Limited
Secretary
16 July 2004

Notes

1 Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, only those shareholders registered in the register of members of Henderson Electric and General Investment Trust plc at 12.00 noon on 14 September 2004 shall be entitled to attend or vote at the Annual General Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of members after 12.00 noon on 14 September 2004 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

2 An ordinary 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 behalf. Such proxy need not be a member of the Company. A form of proxy is enclosed and to be valid must be lodged with the Registrar of the Company not less than forty-eight hours before the time fixed for the meeting. If shareholders so wish, the form of proxy may be returned in an envelope addressed to Computershare Investor Services PLC, FREEPOST, SWB 1002, PO Box 1075, Bristol, BS99 3FA.

3 The completion of the form of proxy will not preclude ordinary shareholders from attending and voting in person at the meeting.

4 This notice is sent for information only to holders of debenture stock who are not entitled to attend or vote at the meeting.

5 By attending the meeting, members and their proxies and representatives are understood by the Company to have confirmed their agreement to receive any communications (including communications relating to the Company's securities) made at the meeting.

6 The register of directors' interests kept by the Company in accordance with Section 325 of the Companies Act 1985 will be open for inspection at the meeting.

Registered Office:
4 Broadgate,
London EC2M 2DA.