

# TR European Growth Trust PLC

Interim Report for the half year ended

31 December 2004



# Policy, Objective and Benchmark

## Policy

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

## Objective

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

## Benchmark

A blend of 50% of the total return of the HSBC Smaller Europe (ex UK) Index and 50% of the total return of the S&P/Citigroup EMI Europe (ex UK) Index (both expressed in sterling).

## Highlights

Unaudited 31 December 2003 £'000	Assets	Unaudited 31 December 2004 £'000	Audited 30 June 2004 £'000	% change
304,246	Total net assets	<b>380,961</b>	339,990	+12.1
%	Divided between:	%	%	
88.9	Quoted equities	<b>89.1</b>	94.4	
6.5	Unquoted equities	<b>3.8</b>	5.8	
0.1	Unquoted convertibles	<b>0.1</b>	0.1	
4.5	Net current assets/(liabilities)	<b>7.0</b>	(0.3)	
<u>100.0</u>		<u>100.0</u>	<u>100.0</u>	
197.51p	Net asset value per ordinary share (undiluted)	<b>262.19p</b>	223.93p	+17.1
166.25p	Ordinary share price	<b>235.50p</b>	192.50p	+22.3
15.83%	Discount to NAV (undiluted)	<b>10.18%</b>	14.04%	
	Benchmark Index			+15.3
223.10	* HSBC Smaller Europe (ex UK) Index	<b>280.14</b>	238.64	+17.4
272.15	* S&P/Citigroup EMI Europe (ex UK) Index	<b>328.38</b>	289.86	+13.3
384.96	* FTSE World Europe (ex UK) Index	<b>438.21</b>	391.63	+11.9

\* Indices expressed on a total return basis

# Chairman's Statement

## **Results**

The six months to the end of December have been another strong period for European equity markets. Smaller company indices once again outperformed their larger brethren and the strengthening of the Euro against sterling significantly improved returns for sterling-based investors. Our new benchmark index rose by 15.3% on a total return basis in sterling and I am pleased to report that your Company's net asset value per share rose by 17.1% over the same period. The share price rose even more, up 22.3%, as the discount to the net asset value per share narrowed to just over 10%.

The Board is pleased to see that its initiatives to reduce the discount, including the more active share repurchasing policy announced in December, have continued to yield results. The directors' authority to buy back stock for cancellation was refreshed at the AGM. During the six months to 31 December 2004, 6,534,088 shares were repurchased for cancellation. The Board remains committed to taking the measures necessary to ensure that the shares do not trade at an excessive discount.

## **Prospects**

The strong rise in stock markets is increasingly in contrast with the somewhat more mixed outlook on the economic front. This suggests that an element of caution is required; however, we believe that our manager's approach of careful stockpicking should allow us to take advantage of the opportunities that any period of uncertainty inevitably generates. We have made a good start to our financial year and I look forward to updating you on our progress with our full year results.

## **Shareholder Question and Answer Session**

As in both 2003 and 2004, we shall be holding an informal Question and Answer session for shareholders on Monday 21 March 2005 at 4 Broadgate from 10.15am to 11.00am. Those shareholders who wish to attend are asked to contact the Company Secretary (details on page 11) in order to allow appropriate arrangements to be made.

Audley Twiston-Davies  
Chairman  
21 February 2005

# Manager's Report

The positive tone of markets has been supportive for generating performance from our stockpicking approach. Positive contributions to performance came from companies across a range of sectors with the common theme being that they have continued to deliver good operating results. Good performances came from a mixture of both long held companies and also some newer additions.

The strongest contribution came from **Aalberts Industries**, the Dutch specialist engineering group. **auFeminin.com**, Europe's largest women's internet portal, put in another strong performance having already made it into the top performers list for the last two annual reports running. It is a good example of the potential benefits of finding and sticking with companies which have managements focused on running their businesses well. Other strong contributors included **Iliad**, the French telecommunication services company, **Sjaelso Gruppen**, the Danish property developer and **Zentiva**, the generic pharmaceuticals company based in the Czech Republic.

Poor performers over the period included **Regal Petroleum**, the oil and gas company, which saw its share price fall back somewhat after a very strong performance in the first six months of 2004. **Oriflame**, the Swedish cosmetics company with a large percentage of its business in Eastern Europe was a negative contributor after disappointing the market as growth proved harder to achieve than they had initially thought.

Over the six months we made purchases totalling £85 million and sales of £128 million. We purchased 13 new holdings and completely sold 14, thus reducing the overall total from 73 to 72.

The better market tone has meant that IPOs (initial public offerings) have become more of a feature once again. These do not necessarily always provide good entry

## Geographical distribution (% of portfolio)

	31 December 2004	30 June 2004
Austria (A)	9.1	5.2
Belgium (B)	1.0	1.3
Czech Republic (CS)	2.6	1.7
Denmark (DK)	4.5	4.5
Finland (SF)	5.7	8.7
France (F)	10.8	6.5
Germany (D)	13.9	14.6
Greece (GR)	5.8	5.5
Hungary (H)	0.5	–
Ireland/UK (IRL/UK)	11.1	12.4
Italy (I)	4.2	0.7
Netherlands (NL)	10.4	14.3
Spain (E)	7.6	5.7
Sweden (S)	5.1	9.5
Switzerland (CH)	4.5	5.8
Turkey (TU)	1.2	–
Other	2.0	3.6
	<hr/> <b>100.0</b>	<hr/> <b>100.0</b>

# Manager's Report continued

points into companies as the inevitably increased interest and hype generated by investment bankers selling their deals often means that the prices asked are too high. However, with careful selection on price and quality, they can sometimes provide attractive opportunities. Amongst the companies newly listed during the period, we invested in **Azimut**, an Italian investment management company and **Cintra**, a toll road operator. We also added holdings in companies that have been listed for some time. These included **Séché Environnement**, a French waste management company and **Technip**, a French engineering and construction services company specialising in the oil and gas and petrochemicals industries.

We continued our careful forays into what could be termed from a stockmarket point of view as "Emerging Europe". We added holdings in **OTP Bank**, a Hungarian bank and in **Isbank**, a Turkish banking group. As we have mentioned before, our approach to investment in these regions is on the same basis as the rest of the portfolio, i.e. it is the result of careful stockpicking rather than a broad asset allocation decision to "gain exposure".

The last six months have been notable for the high level of corporate activity and a number of our exits from companies were as a result of takeover approaches where we either tendered our stock or sold in the market as the share price reflected the bid level. Examples of this included **Song Networks**, the Swedish communications services company, **New Skies Satellites**, the Dutch satellite communications company and **Beru**, the German automotive specialist components company. We also received cash as a result of the reconstruction of **Henderson European Micro Trust**. Other "more normal" sales, where we felt that we could do better elsewhere, included **Depfa Bank**, **Hochtief** and **Wessanen**.

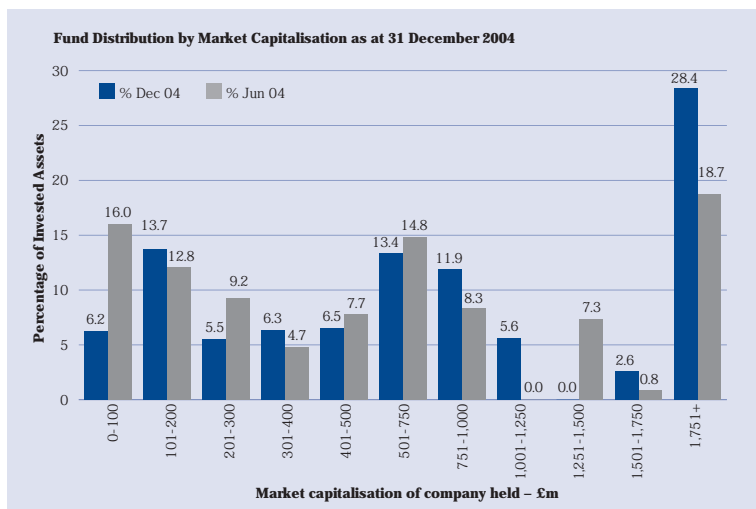
The main changes to the geographical distribution were increases in Austria and France and decreases in the Netherlands and Sweden. The main changes to the sector distribution were an increase in Basic Materials and a decrease in Technology.

The chart overleaf shows our market capitalisation dispersal. The overall shape has not changed dramatically however there has been a small increase towards the larger end, helped in part by the strong performance of some of our larger

## Sector distribution (% of portfolio)

	31 December 2004	30 June 2004
Natural Resources	8.5	7.9
Basic Materials	21.0	17.0
Industrial Goods	7.2	9.8
Consumer Goods	11.0	11.3
Retail Providers	5.3	7.3
Business Providers	30.7	28.4
Technology	6.8	9.5
Financials	9.5	8.8
	<hr/> <b>100.0</b>	<hr/> <b>100.0</b>

# Manager's Report continued



capitalisation holdings. This is reflected in the fact that the weighted average market capitalisation of the portfolio is £1,390 million versus £1,039 million six months ago.

European equities have performed strongly over the last six months with a particular rally after the clear result of the US presidential election. However the economic picture is not quite as clear. There is a noticeable air of caution as to whether the slowdown is just a pause, or something more serious. The seeming reluctance of many companies to increase their investment plans demonstrates this nervousness as to the rate of growth. This contrasts with the sense of optimism and exuberance demonstrated by equity markets towards the end of 2004 and continued into early 2005. Markets have continued to be driven higher and this in turn has increased the frenzy of activity at the investment banks and brokerage houses, launching a flood of new deals and placings. These levels of optimism and valuations may not be sustainable and during the next six months it is unlikely that markets will continue in an uninterrupted upwards direction. At some stage sentiment is likely to falter and markets will probably suffer at least a temporary setback. This is not necessarily a bad thing as changes in sentiment can provide opportunities for the careful stockpicker – we have increased our cash levels to take advantage of relevant opportunities. Given the very wide range of companies within our target area, we still firmly believe that if we can find the companies with the right products and strategies, at the right prices, then we can continue to make progress and build further on the good start we have made to this financial year.

Stephen V. Peak  
Fund Manager  
21 February 2005

# Thirty Largest Investments

Market Value at 31 December 2004

Stock	Activity	£'000
Sjaelso Gruppen (DK)	<i>property developer</i>	16,127
Regal Petroleum (UK)	<i>oil and gas</i>	15,733
Mobilcom (D)	<i>telecommunication services</i>	14,200
Pfleiderer (D)	<i>engineered wood products</i>	12,021
Aalberts Industries (NL)	<i>specialist engineering products and services</i>	12,005
Wienerberger (A)	<i>building materials</i>	11,198
NDS (UK)	<i>conditional access software</i>	11,050
Azimut (I)	<i>investment manager</i>	10,177
Rapala VMC (SF)	<i>manufacturer and distributor of fishing-related products</i>	8,481
Iliad (F)	<i>telecommunication services</i>	7,882
ACS (E)	<i>construction and concessions</i>	7,740
*BrainLAB (D)	<i>medical technology company</i>	7,696
Heijmans (NL)	<i>broadly based construction company</i>	7,678
Coca-Cola Hellenic Bottling (GR)	<i>soft drinks bottler</i>	7,638
OMV (A)	<i>oil and gas</i>	7,014
Cintra (E)	<i>toll road operator</i>	6,856
Altadis (E)	<i>tobacco products</i>	6,560
iTouch (UK)	<i>provider of information/services to mobile customers</i>	6,517
auFeminin.com (F)	<i>Europe's largest women's internet portal</i>	6,466
Technip (F)	<i>engineering and construction services</i>	6,233
Eiffage (F)	<i>construction and concessions</i>	6,027
Andritz (A)	<i>industrial process solutions</i>	5,958
Red Electrica (E)	<i>operator of Spain's national electric grid</i>	5,857
Eircom (IRL)	<i>telecommunications</i>	5,851
VP Bank (CH)	<i>private bank</i>	5,547
Axalto (F)	<i>smart card producer</i>	5,380
Eniro (SK)	<i>directories producer</i>	5,320
Bilfinger & Berger (D)	<i>construction and engineering services</i>	4,819
Cesky Telecom (CS)	<i>telecommunications</i>	4,735
Lundin Mining (S)	<i>mining</i>	4,566

These investments total £243,332,000 or 68.7% of the portfolio.

All classes of equity in any one company are treated as one investment.

Country designations are shown on page 2.

\* Unquoted investment

# Group Statement of Total Return (incorporating the revenue account)

for the half year ended 31 December 2004

Notes	(Unaudited)		
	Half year ended 31 December 2004		
	Revenue £'000	Capital £'000	Total £'000
Total capital gains from investments	–	55,895	55,895
Income from fixed asset investments	1,073	–	1,073
Other interest receivable and similar income	125	–	125
	<hr/>	<hr/>	<hr/>
<b>Gross revenue and capital gains</b>	<b>1,198</b>	<b>55,895</b>	<b>57,093</b>
Management fee (including performance fee)	(208)	(1,840)	(2,048)
Other administrative expenses	(365)	–	(365)
	<hr/>	<hr/>	<hr/>
<b>Net return on ordinary activities before interest payable and taxation</b>	<b>625</b>	<b>54,055</b>	<b>54,680</b>
Interest payable	(11)	(47)	(58)
	<hr/>	<hr/>	<hr/>
<b>Net return on ordinary activities before taxation</b>	<b>614</b>	<b>54,008</b>	<b>54,622</b>
Taxation (charge)/relief on ordinary activities	(224)	202	(22)
	<hr/>	<hr/>	<hr/>
<b>Net return/(loss) on ordinary activities after taxation</b>	<b>390</b>	<b>54,210</b>	<b>54,600</b>
	<hr/>	<hr/>	<hr/>
<b>Appropriations – dividends</b>			
Interim 2004: 2.40p	–	–	–
Special 2004: 0.50p	–	–	–
	<hr/>	<hr/>	<hr/>
Total dividends payable	–	–	–
	<hr/>	<hr/>	<hr/>
4 Over accrual prior year	92	–	92
	<hr/>	<hr/>	<hr/>
<b>Transfer to/(from) reserves</b>	<b>482</b>	<b>54,210</b>	<b>54,692</b>
	<hr/>	<hr/>	<hr/>
1 <b>Return/(loss) per ordinary share</b>	<b>0.26p</b>	<b>36.44p</b>	<b>36.70p</b>

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

(Unaudited)			(Audited)		
Half year ended 31 December 2003			Year ended 30 June 2004		
Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
–	64,443	64,443	–	103,832	103,832
757	–	757	7,858	–	7,858
79	–	79	139	–	139
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
836	64,443	65,279	7,997	103,832	111,829
(277)	(1,109)	(1,386)	(512)	(2,046)	(2,558)
(303)	–	(303)	(635)	–	(635)
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
256	63,334	63,590	6,850	101,786	108,636
(2)	(10)	(12)	(30)	(118)	(148)
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
254	63,324	63,578	6,820	101,668	108,488
(567)	538	(29)	(1,345)	567	(778)
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
(313)	63,862	63,549	5,475	102,235	107,710
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
–	–	–	(3,644)	–	(3,644)
–	–	–	(759)	–	(759)
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
–	–	–	(4,403)	–	(4,403)
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
3	–	3	3	–	3
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
(310)	63,862	63,552	1,075	102,235	103,310
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
(0.20)p	41.38p	41.18p	3.57p	66.68p	70.25p
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

# Group Balance Sheets

as at 31 December 2004

Note	(Unaudited) 31 December 2004 £'000	(Unaudited) 31 December 2003 £'000	(Audited) 30 June 2004 £'000	
	<b>Fixed assets</b>			
	Investments at valuation	354,363	290,686	341,118
	<b>Current assets</b>			
	Debtors	369	528	831
	Cash at bank	28,523	13,195	3,097
		<u>28,892</u>	<u>13,723</u>	<u>3,928</u>
	<b>Creditors: amounts falling due within one year</b>	<b>(2,294)</b>	<b>(163)</b>	<b>(5,056)</b>
	<b>Net current assets/(liabilities)</b>	<b>26,598</b>	<b>13,560</b>	<b>(1,128)</b>
	<b>Total net assets</b>	<b>380,961</b>	<b>304,246</b>	<b>339,990</b>
	<b>Capital and reserves</b>			
	Called up share capital	18,162	19,255	18,979
	Share premium	115,451	115,451	115,451
	Other capital reserves	235,258	159,317	193,952
	Revenue reserve	12,090	10,223	11,608
		<u>380,961</u>	<u>304,246</u>	<u>339,990</u>
2	<b>Net asset value per ordinary share</b>	<b>262.19p</b>	<b>197.51p</b>	<b>223.93p</b>

# Group Cash Flow Statement

for the half year ended 31 December 2004

	(Unaudited) Half year ended 31 December 2004 £'000	(Unaudited) Half year ended 31 December 2003 £'000	(Audited) Year ended 30 June 2004 £'000
Net cash inflow/(outflow) from operating activities	743	(789)	3,727
Net cash outflow from servicing of finance	(53)	(13)	(149)
Net tax recovered	474	289	407
Net cash inflow from financial investment	42,355	17,426	7,544
Equity dividends paid	(4,311)	(3,242)	(3,242)
Net cash outflow from financing	(13,721)	(1,544)	(5,558)
Increase in cash	<u>25,487</u>	<u>12,127</u>	<u>2,729</u>
<b>Reconciliation of operating revenue to net cash inflow/(outflow) from operating activities</b>			
Net revenue before interest payable and taxation	625	256	6,850
(Increase)/decrease in accrued income	(4)	201	219
Decrease in other debtors	13	3	–
Increase/(decrease) in other creditors	2,087	(43)	(4)
Management charge taken to other capital reserves	(1,840)	(1,109)	(2,046)
Overseas withholding tax suffered	(138)	(97)	(1,292)
	<u>743</u>	<u>(789)</u>	<u>3,727</u>
<b>Reconciliation of net cash flow to movement in net funds</b>			
Increase in cash	25,487	12,127	2,729
Exchange differences	9	348	(422)
Movement in net funds in period	<u>25,496</u>	<u>12,475</u>	<u>2,307</u>
Net funds at beginning of period	3,027	720	720
Net funds at period end	<u>28,523</u>	<u>13,195</u>	<u>3,027</u>
Represented by:			
Cash at bank less bank overdrafts	<u>28,523</u>	<u>13,195</u>	<u>3,027</u>

**1. Return/(loss) per ordinary share**

Revenue return per ordinary share is based on earnings attributable to the ordinary shares of £390,000 (half year ended 31 December 2003: loss £313,000; year ended 30 June 2004: gains £5,475,000) and on the weighted average number of shares in issue during the half year ended 31 December 2004 of 148,763,517 (half year ended 31 December 2003: 154,306,120; year ended 30 June 2004: 153,321,883).

Capital return per ordinary share is based on net capital gains for the half year ended 31 December 2004 of £54,210,000 (half year ended 31 December 2003: £63,862,000; year ended 30 June 2004: £102,235,000) and on the weighted average number of shares in issue as shown above.

**2. Net asset value per ordinary share**

Undiluted net asset value per ordinary share is based on the 145,296,869 ordinary shares in issue at 31 December 2004 (31 December 2003: 154,040,957; 30 June 2004: 151,830,957).

**3. Issued share capital**

During the period, the Company repurchased for cancellation 6,534,088 of its own issued shares. At 31 December 2004 there were 145,296,869 ordinary shares in issue.

**4. Dividends**

No interim dividend has been declared (2003: nil). The total dividend payable in respect of the year ended 30 June 2004, at 2.90p per ordinary share (comprising an interim dividend of 2.40p per ordinary share and a special dividend of 0.50p per ordinary share), amounted to £4,311,000. The buy-backs of the Company's ordinary shares, after 30 June 2004 but before the record date of the total dividend for the year ended on that date, resulted in a write-back of £92,000 for dividends accrued in the year ended 30 June 2004 but not in the event payable.

**5. Comparative information**

The financial information contained in this interim statement does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. The financial information for the six months ended 31 December 2003 and 31 December 2004 have not been audited. The figures and financial information for the year ended 30 June 2004 are an extract from the latest published accounts and do not constitute statutory accounts for that year. Those accounts have been delivered to the Registrar of Companies and included the report of the auditors, which was unqualified and did not contain a statement under either section 237(2) or 237(3) of the Companies Act 1985.

**6. Interim statement**

The interim accounts were approved by the directors on 21 February 2005.

# Directors and other Information

## Directors

A W Twiston-Davies (Chairman)  
B C Clark  
R C H Jeens  
J Lancaster  
J Neynaber

## Registered Office

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

## Registered Number

Registered as an investment company in  
England and Wales number 2520734

## Investment Manager

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

Fund Management Team:  
S V Peak  
S J Savill

## Secretary

Henderson Secretarial Services Limited  
represented by J S Ellman-Brown ACIS

## Registrar

Lloyds TSB Registrars  
The Causeway  
Worthing  
West Sussex BN99 6DA  
Telephone: 0870 601 5366

## Registered Auditors

PricewaterhouseCoopers LLP  
Southwark Towers  
32 London Bridge Street  
London SE1 9SY

## Stockbrokers

Dresdner Kleinwort Wasserstein  
20 Fenchurch Street  
London EC3P 3DB

## Share Price Listings

The market price of the Company's ordinary shares  
is published daily in the Financial Times, The Times  
and the Daily Telegraph. The Financial Times also  
shows figures for the estimated net asset values  
and the discounts/premiums applicable.

## Share Price Information

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

## Performance Details

Details of the Company's performance are updated  
daily on the Henderson website: [www.itshenderson.com](http://www.itshenderson.com)

## Disability Act

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

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

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



A MEMBER OF THE ASSOCIATION  
OF INVESTMENT TRUST COMPANIES

## Henderson Investment Trust Share Plan

The Henderson Investment Trust Share Plan offers a simple and flexible way of investing in **TR European Growth Trust PLC**. The Share Plan offers the following:

- **Regular savings from £50 per month/quarter, or lump sum investments from £500 and additional 'top-up' from £100**
- **An income reinvestment facility. Alternatively, you can have dividends paid to your bank or building society account**
- **All paperwork and documentation is simplified and reduced to a minimum**
- **Half yearly valuations with consolidated tax certificate and complimentary newsletters**

## Henderson ISA

You can invest directly in **TR European Growth Trust PLC** through the Henderson ISA. The ISA offers the following:

- **Tax free income and tax free growth**
- **Regular savings from £100 per month or lump sum investments from £2,000**
- **An income reinvestment facility. Alternatively, you can have dividends paid to your bank or building society account**
- **Half yearly valuations, reports and complimentary newsletters**
- **Both Mini and Maxi ISAs available for investment by lump sum or regular savings**

## Henderson Transfer PEP or ISA

A Henderson Transfer PEP or ISA allows you to transfer your existing PEP or ISA funds into the Trust. Investments retain their tax-efficient status during and after transfer.

Please remember that the value of your investment can fall as well as rise and you may not get back the amount originally invested. Tax assumptions may change if the law changes and the value of tax relief will depend upon your individual circumstances.

## Further Information

Please consult our website [www.itshenderson.com](http://www.itshenderson.com) or write to Henderson Global Investors, FREEPOST, Newbury RG14 2ZZ. No stamp is required.

Alternatively, please contact your professional adviser for further information or call our Investor Services Department on freephone **0800 832 832** quoting the reference **REPORT**. Please call (44) 20 7818 1818 if you are telephoning from abroad.

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