SMALL COMPANIES PLC

Annual Report
for the year ended 30 April 2006

Investment objective

Small Companies Dividend Trust PLC ('SCDT') owns the whole of the issued Ordinary share capital of Small Companies PLC ('SC') which was especially formed for the issuing of Zero Dividend Preference shares. Substantially all the proceeds raised by SC have been made available to SCDT by way of a Loan Note dated 25 May 1999. The Loan Note is non interest bearing and will be repaid or redeemed at par on 30 April 2007 or, if required by SC, at any time prior to that date.

This Report and financial statements should be read in conjunction with the Report and financial statements of Small Companies Dividend Trust PLC.

Contents

If you are in any doubt about the contents of this document or the action you should take, you are recommended to seek immediately your own independent financial advice from your stockbroker, bank manager, solicitor, accountant or other financial adviser who is authorised under the Financial Services and Markets Act 2000.

Company summary

History

The Company was launched on 12 May 1999, raising £6,282,000 before expenses by a placing of 6,250,000 Zero Dividend Preference shares and through the issue of 31,260 Preference shares and 2 Ordinary shares.

Group structure

The Company is a wholly owned Subsidiary of Small Companies Dividend Trust PLC.

Total non-equity shareholders funds and market capitalisation at year end

At 30 April 2006, the Company had a market capitalisation of £10,797,000 (2005: £10,203,000) and total net assets before liabilities due to Zero Dividend Preference and Preference shareholders amounted to £10,739,000 (2005: £9,944,000).

Management fee

The management fee for the Group is charged to and paid in full by Small Companies Dividend Trust PLC.

PEP/ISA status

The Zero Dividend Preference shares are eligible for inclusion in PEPs and ISAs.

Reorganisation

Proposals in a circular sent to shareholders dated 20 July 2006, were not passed at the Extraordinary General Meeting held in August 2006. These proposals included:

- defer the continuation vote concerning the Company's future from 2007 until 2014;
- revision of the rights attaching to the Zero Dividend Preference shares, such that, as from 1 May 2007, their annual rate of accrual will reduce from 8 per cent to 6.75 per cent; in addition, their life will continue until 30 April 2014;
- the adoption of new Articles of Association; and
- a placing of New Zero Dividend Preference shares with investors, and a tender offer to existing holders of Zero Dividend Preference shares.

Hence, the placing and tender offer will not proceed and the Company's wind-up date remains 30 April 2007.

Registered in England
No. 3762370

Directors

The Rt Hon the Lord Lamont of Lerwick* (Chairman), aged 64, acted as Chancellor of the Exchequer between 1990-1993. Prior to his appointment, Lord Lamont acted as Chief Secretary to the Treasury between 1989-1990. Following his retirement from acting as a Member of Parliament in 1997, he has held numerous positions as a director of various organisations and funds including NM Rothschild and Sons Ltd and chairman of the Archipelago Fund, the Indonesia Fund, the Asia Specialist Growth Fund and Taiwan Investment Fund of Jupiter Asset Management Limited. His current directorships include Balli Group plc, Jupiter Finance and Income Trust, European Growth and Income Trust, managed by Aberdeen Asset Management, and chairman of Jupiter Adria plc managed by Jupiter Asset Management Limited.

Lord Lamont was appointed to the Board on 27 February 2006.

Bryan Norman Lenygon*, aged 74, is a chartered accountant and a barrister. He is a former director of Gartmore Investment Limited and is a director of other investment trust companies.

Mr Lenygon was appointed to the Board on 6 April 1999.

John Edward Chappell*, aged 56, has been a stockbroker since 1969. He is currently a director of private clients funds at Charles Stanley.

Mr Chappell was appointed to the Board on 22 April 1999.

David Harris*, aged 56, is Chief Executive of InvaTrust Consultancy. The company specialises in marketing issues relating to the investment and financial services industry. He writes regular articles for the national and trade press on investment matters. From 1995 to 1999 he was a director of the AITC (now AIC) with specific responsibility for training and education of independent financial advisers. He is a non-executive director of two other investment trust companies and the Character Group plc.

Mr Harris was appointed to the Board on 30 May 2000.

William van Heesewijk, aged 47, began his career with Lloyds Bank in 1981 working for both the merchant banking and investment management arms. He has been involved in the investment trust industry since 1987; having worked for Fidelity Investments International, Gartmore Investment Management plc and BFS Investments plc and is Business Development Director with Chelverton Asset Management Limited.

Mr van Heesewijk was appointed to the Board on 1 December 2005.

* Independent of the Investment Manager

Manager and Secretary

Manager: Chelverton Asset Management Limited (‘Chelverton’)

Chelverton specialises in small company investment management. The Managing Director, David Horner, is a chartered accountant and has considerable experience of analysing and working with smaller companies.

Chelverton is authorised and regulated by the Financial Services Authority.

BFS Investments plc was the Company’s Investment Manager for the period 1 May 2005 to 30 November 2005. During this period Chelverton was the Company’s Investment Adviser. Chelverton became the Investment Manager with effect from 1 December 2005, following the passing of a shareholder resolution at the Company’s Annual General Meeting on 25 November 2005.

Secretary: Capita Sinclair Henderson Limited

Capita Sinclair Henderson Limited provides company secretarial and administrative services for the Company. It provides similar services for a number of investment trust companies.

On 16 June 2006, Capita Financial Group Limited, a subsidiary of The Capita Group Plc, announced that, it had acquired Sinclair Henderson Limited from iimia Investment Group Plc. On 4 August 2006 Sinclair Henderson Limited changed its name to Capita Sinclair Henderson Limited.

Chairman's report

My report on the Group's activity during the year to 30 April 2006 is contained in the Annual Report of Small Companies Dividend Trust PLC which accompanies this document and which I would ask shareholders to read.

Please also note the outcome of the reorganisation, as shown on page 1 of this report.

Lord Lamont of Lerwick
Chairman
18 October 2006

Investment Manager's report

The investments of the Company are managed as part of an overall policy for the Group. For details of the Group's activities and performance during the year to 30 April 2006 shareholders should refer to the Annual Report of Small Companies Dividend Trust PLC which accompanies this document.

Chelverton Asset Management Limited
18 October 2006

Report of the Directors

The Directors present their Report and financial statements of the Company for the year ended 30 April 2006. The Company's registered number is 3762370.

Principal activities and status

The principal activity of the Company is to carry on business as an investment company. The Directors do not envisage any change in these activities in the foreseeable future. The Company is an investment company within the meaning of Section 266 of the Companies Act 1985. The Company is not a close company.

Business Review

This year sees the introduction of a new mandatory reporting requirement under the Companies Act 1985. The revised Business Review requirements apply for the first time to UK companies in respect of accounting periods ending on or after 1 April 2005.

The Business Review of the Group is as stated in the Annual Report of the parent company. However the following information relates specifically to the Company.

The Company was especially formed for the issuing of Zero Dividend Preference shares and is a wholly owned Subsidiary of Small Companies Dividend Trust PLC ('SCDT'). Substantially all the proceeds raised by the Company have been made available to SCDT by means of a Loan Note dated 25 May 1999. The Loan Note is non-interest bearing and will be repaid or redeemed at par on 30 April 2007 or, if required by the Company, at any time prior to that date.

The Company has entered into an agreement with SCDT, its parent, pursuant to which SCDT will subscribe on 30 April 2007 for one Ordinary share in the Company. The subscription will be at such a premium as will result in the assets of the Company being sufficient to satisfy the capital entitlement on 30 April 2007 of 184.63p per share, being £11,597,000 in total, of the Zero Dividend Preference shares and the Preference shares in issue on that date. This assumes that the parent company and the Company have sufficient assets as of 30 April 2007 to repay the Zero Dividend Preference shares and the Preference shares. To this extent the Company is reliant upon the investment performance of the parent company and subject to the principal risks as set out in the Business Review contained within the Annual Report of SCDT.

Based on the value of the Group's assets as at 30 April 2006 they would have to fall at a rate of 77.05% per annum for the Company to be unable to meet the full capital repayment entitlements of the Zero Dividend Preference shares and the Preference shares on the scheduled repayment date 30 April 2007.

Dividends

The Directors do not recommend the payment of a final dividend in respect of the year ended 30 April 2006.

Directors

Directors who served during the year ended 30 April 2006 were as follows:

Lord Lamont (appointed 27 February 2006)
B N Lenygon
D Harris
J E Chappell
W van Heesewijk (appointed 1 December 2005)

Having been appointed to the Board since the last Annual General Meeting and in accordance with the Company's Articles of Association and the Combined Code, Lord Lamont and Mr van Heesewijk will retire at the forthcoming Annual General Meeting and, being eligible, will offer themselves for election.

None of the other Directors nor any persons connected with them had a material interest in any of the Company's transactions, arrangements or agreements during the year. None of the Directors, save as mentioned above, has or has had any interest in any transaction which is or was unusual in its nature or conditions or significant to the business of the Company, and which was effected by the Company during the current financial year.

There have been no loans or guarantees between the Company and any Director, during the year or thereafter.

Directors' beneficial and family interests

	30 April 2006 Zero Dividend Preference shares	30 April 2005 Zero Dividend Preference shares
Lord Lamont	–	–
B N Lenygon	–	–
J E Chappell	–	–
D Harris	–	–
W van Heesewijk	–	–

The Directors' interests in the shares of the parent company are given in the Annual Report and Financial Statements of Small Companies Dividend Trust PLC.

Ordinary shares/Preference shares

The Ordinary shares in the Company are held by Small Companies Dividend Trust PLC. The Preference shares in the Company are held by Chelverton Growth Trust PLC.

Investment policy

The investment policy of the Company and Small Companies Dividend Trust PLC is effectively the same and was revised at the Annual General Meeting on 25 November 2005.

The assets of the Company are invested on its behalf by Small Companies Dividend Trust PLC under this policy and secured under a non-interest bearing Loan Note.

Management agreements

The Group's investments are managed by Chelverton under an agreement ('the Investment Management Agreement') effective from 1 December 2005. The management fee, payable quarterly in arrears has been calculated at an annual rate of 1% (increased from 0.85%) of the value of the gross assets under management of the Group for the year ended 30 April 2006. A performance fee of 10% (decreased from 33%) of the amount by which the net asset value plus dividends paid during the year exceeds 10% compounded, subject to certain conditions, is also payable annually to the Investment Manager. A performance fee of £1,346,000, including VAT, is payable for the year ended 30 April 2006, of which £1,103,000 was paid to BFS in accordance with the previous agreement and £243,000 is payable to Chelverton under the new agreement. These fees are met entirely by the parent company.

Under another agreement ('the Administration Agreement') dated 7 May 1999, company secretarial services and the general administration of the Group are undertaken by Capita Sinclair Henderson Limited. Their fee is subject to annual upward adjustments in accordance with the Retail Price Index. The Administration Agreement may be terminated by twelve months' written notice.

Payment of suppliers

It is the Company's policy to obtain the best possible terms for all business and therefore the Company does not follow any code or standard on payment practice. The Company agrees with its suppliers the terms on which business will be transacted, and it is the Company's policy to abide by those terms. At 30 April 2006 all suppliers' invoices received had been settled.

Financial Instruments

As part of its normal operations, the Company holds financial assets and financial liabilities. Full details of the role of financial instruments in the Company's operations are set out in note 16 to the financial statements.

ISAs/PEPs

The current Portfolio of the Company is such that the Zero Dividend Preference shares are eligible investments for inclusion in Personal Equity Plans and it is the intention of the Directors to manage the affairs of the Company so that this eligibility will be maintained. The Company's Zero Dividend Preference shares are also qualifying investments for Individual Savings Accounts.

Auditors

The Auditors, Baker Tilly, have indicated their willingness to continue in office and resolution 5, proposing their re-appointment and authorising the Directors to fix their remuneration for the ensuing year, will be submitted at the Annual General Meeting.

The Directors who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the Auditors are unaware. Each of the Directors have confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the Auditors.

By order of the Board
Capita Sinclair Henderson Limited
Secretary
18 October 2006

Statement on corporate governance

The Company is committed to maintaining high standards of corporate governance and the Directors are accountable to shareholders for the governance of the Company's affairs.

Statement of Compliance with the Combined Code on Corporate Governance ('the Combined Code')

The Directors have reviewed the detailed principles outlined in the Combined Code and confirm that, to the extent that they are relevant to the Company's business, they have complied with its provisions throughout the year ended 30 April 2006, except in respect of those procedures described in this section as being non-compliant, and that the Company's current practice is in all material respects consistent with the principles of the Combined Code.

The Board also confirms that, to the best of its knowledge and understanding, procedures were in place to meet the requirements of the Combined Code relating to internal controls throughout the year under review. This statement describes how the principles of the Combined Code have been applied in the affairs of the Company.

- Due to the size of the Board formal performance evaluations of the Chairman, the Board, its committees and individual Directors are not undertaken. Instead it is felt more appropriate to address matters as and when they arise. (Code provisions A.6, A.7.2).

- Due to the size of the Board it is also felt inappropriate to appoint a senior independent non-executive director (A.3.3).

- The Directors do not have service contracts, but all are required to retire and seek re-election at least every three years. The recommendation of the Combined Code is for fixed term renewable contracts (B.1.6).

- As the Company has had no staff, other than Directors, there are no procedures in place in relation to whistle-blowing (C.3.4).

Board membership

At the year end the Board consisted of five Directors, all of whom are non-executive. There are no full time employees of the Company. The Board seeks to ensure that it has the appropriate balance of skills, experience, ages and length of service amongst its members. The Directors possess a wide range of business and financial expertise relevant to the direction of the Company and consider that they commit sufficient time to the Company's affairs. None of the Directors had a service agreement with the Company as at 30 April 2006. Brief biographical details of the Directors can be found on page 2.

The Directors of the Company meet at regular Board Meetings, held at least once a quarter, and additional meetings and telephone meetings are arranged as necessary. During the year to 30 April 2006 the Board met five times, Mr Lenygon attended all five meetings, Mr Chappell and Mr Harris attended four, with Mr van Heesewijk and Lord Lamont attending all meetings since their appointment.

Chairman and Senior Independent Director

The Chairman, Lord Lamont, is independent. He considers himself to have sufficient time to commit to the Company's affairs. Given the size and nature of the Board it is not considered appropriate to appoint a senior independent director. The Company does not have a chief executive officer, as it has no executive directors. In appointing a management company the roles of Chairman and Chief Executive Officer are effectively separated.

Directors' independence

In accordance with the Listing Rules for investment entities the Board has reviewed the status of its individual Directors and the Board as a whole.

The Combined Code requires that this report should identify each non-executive director the Board considers to be independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the director's judgement, stating its reasons if it determines that a director is independent notwithstanding the existence of relationships or circumstances which may appear relevant to its determination.

Mr Lenygon is also a director of another company managed by Chelverton; however his fellow Directors consider that he clearly and effectively demonstrates his independence of the Manager and they consider him to be independent.

Lord Lamont, Mr Chappell, Mr Harris and Mr Lenygon are deemed to be independent of the Investment Manager. Mr van Heesewijk is not independent. The majority of the Board, being four of the five Directors, is therefore independent.

Under the Combined Code, the Board's policy with regard to tenure of office is that any Director having served for nine years since his first election will be required to seek annual re-election thereafter. Notwithstanding that the Company's Articles of Association do not preclude a Director from continuing in office having attained the age of 70, the Directors have agreed that any Director over the age of 70 wishing to continue in office will submit himself for re-election annually. Henceforth Mr Lenygon will stand for re-election annually.

Directors appointed during the year are required under the Listing Rules to stand for election at the first Annual General Meeting after their appointment, accordingly Lord Lamont and Mr van Heesewijk will retire and seek election. Also under the Listing Rules Mr van Heesewijk will be subject to annual re-election thereafter as a result of his connection to the Investment Manager.

In accordance with the terms of the Articles of Association, one-third of Directors will retire by rotation at the forthcoming Annual General Meeting and no Director shall serve a term of more than three years before re-election. Resolutions to elect Lord Lamont and Mr van Heesewijk and re-elect Mr Lenygon are contained within the Notice of the Annual General Meeting on page 40. The Board has reviewed the appointment of those Directors retiring at the forthcoming Annual General Meeting prior to submission for their re-election. The Board recommends that shareholders vote for Lord Lamont, Mr Lenygon and Mr van Heesewijk as it believes their performance to be effective, that they demonstrate commitment to their roles as non-executive Directors of the Company and have actively contributed throughout the year.

Board responsibilities and relationship with Investment Manager

The Board is responsible for the implementation of the Company's investment policy and for monitoring compliance with the Company's objectives. The Company's main functions have been delegated to a number of service providers, each engaged under separate legal agreements. At each Board meeting the Directors follow a formal agenda prepared and circulated in advance of the meeting by the Company Secretary to review the Company's investments and all other important issues, such as asset allocation, gearing policy, corporate strategic issues, cash management, peer group performance, marketing and shareholder relations, investment outlook and revenue forecasts, to ensure that control is maintained over the Company's affairs. The Board regularly considers its overall strategy.

The Board is responsible for the investment policy and strategic and operational decisions of the Company and for ensuring that the Company is run in accordance with all regulatory and statutory requirements. These procedures have been formalised in a schedule of matters reserved for decision by the full Board and has been adopted for all meetings. These matters include:

- the maintenance of clear investment objectives and risk management policies, changes to which require Board approval;

- the monitoring of the business activities of the Company, including investment performance and annual budgeting; and

- review of matters delegated to the Manager, Administrator or Secretary.

The management of the Company's assets is delegated to Chelverton. At each Board meeting, representatives of Chelverton are in attendance to present verbal and written reports covering its activity, portfolio composition and investment performance over the preceding period. Ongoing communication with the Board is maintained between formal meetings. The Managers ensure that Directors have timely access to all relevant management and financial information to enable informed decisions to be made and contact the Board as required for specific guidance. The Company Secretary and Investment Manager prepare briefing notes for Board consideration on matters of relevance, for example changes to the Company's economic and financial environment, statutory and regulatory changes and corporate governance best practice.

The Company has arranged a Directors' and Officers' Liability insurance policy which provides cover for legal expenses.

Committees of the Board

The Board has appointed a number of Committees as set out below to which certain Board functions have been delegated. Each of these Committees has formal written terms of reference, which clearly define their responsibilities, incorporate the best practice recommendations and requirements of the Combined Code. The terms of reference can be inspected at the Registered Office of the Company.

Audit Committee

The Audit Committee comprises the independent Directors with Mr Lenygon as Chairman. The Committee met twice during the year ended 30 April 2006. Each Committee member in office at the time was present. It is intended that the Committee will meet at least twice a year, to review the Interim Report and to approve the Company's Annual Report and financial statements.

The primary responsibilities of the Audit Committee: are to review the effectiveness of the internal control environment of the Company and monitor adherence to best practice in corporate governance; to make recommendations to the Board in relation to the re-appointment of the Auditors and to approve their remuneration and terms of engagement; to review and monitor the Auditors' independence and objectivity and the effectiveness of the audit process and provide a forum through which the Company's Auditors report to the Board. The Audit Committee also has responsibility for monitoring the integrity of the financial statements and accounting policies of the Company and for reviewing the Company's financial reporting and internal control policies and procedures. Committee members consider that individually and collectively they are appropriately experienced to fulfil the role required.

The Audit Committee has direct access to the Company's Auditors, Baker Tilly, and representatives of Baker Tilly attend the year end Audit Committee meeting. On the basis of these meetings the Audit Committee has been able to assess the effectiveness of the external audit. A formal statement of independence is received from the external Auditors each year.

The Chairman of the Audit Committee will be present at the Annual General Meeting to deal with any questions relating to the financial statements.

Management Engagement Committee

The Management Engagement Committee comprises the independent Directors with Mr Lenygon as Chairman. The Committee will meet at least once a year going forward to review the performance of the Investment Manager's obligations under the Investment Management Agreement and to consider any variation to the terms of the Agreement. The Management Engagement Committee also reviews the performance of the Company Secretary, the Custodian and the Registrar and any matters concerning their respective agreements with the Company.

Nominations Committee

The Nominations Committee comprises the independent Directors with Mr Lenygon as Chairman, and has been formally constituted to assist the Board in making recommendations on new Board appointments.

The role of the Committee is to review the balance and effectiveness of the Board and to identify the skills and expertise needed to meet the future challenges and opportunities facing the Company and those individuals who might best provide them. The Committee makes recommendations to the Board with regard to the criteria for future Board appointments, the methods of selection, as and when necessary, membership of the Audit Committee and the rationale for the re-appointment of those Directors standing for re-election at Annual General Meetings. The Committee is responsible for assessing the time commitment required for each Board appointment, ensuring that the present incumbents have sufficient time to undertake them and for reviewing the Directors' performance appraisal process.

Whilst the Combined Code makes reference to the use of external search consultancies or open advertising when making appointments to the Board, in the two instances during the year when Directors were appointed, these recruitment tools were not deemed necessary as suitable candidates had already been identified. The Nominations Committee did not meet during the year as the appointments of Lord Lamont and Mr van Hessewijk were made by the Board as a whole.

On appointment to the Board, Directors are fully briefed as to their responsibilities by the Chairman and the Investment Manager.

Remuneration Committee

The Remuneration Committee comprises the independent Directors with Mr Lenygon as Chairman. The Committee will meet at least once a year to determine and approve Directors' fees, following proper consideration of the roles that individual Directors fulfil in respect of Board and Committee responsibilities, the time committed to the Company's affairs and remuneration levels generally within the Investment Trust sector.

Under the Listing Rule 15.4.15 where a company has no executive directors, the Combined Code principles relating to directors' remuneration do not apply to an investment trust company other than to the extent that they relate specifically to non-executive directors. Detailed information on the remuneration arrangements can be found in the Annual Report of Small Companies Dividend Trust PLC.

As the Directors are remunerated by the parent Company so no Remuneration Report has been prepared in respect of the Company.

Independent professional advice

The Board has formalised arrangements under which the Directors, in the furtherance of their duties, may take independent professional advice at the Company's expense.

Institutional investors – use of voting rights

The Investment Manager, in the absence of explicit instruction from the Board, is empowered to exercise discretion in the use of the Company's voting rights.

Going concern

After due consideration, the Directors have concluded that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Internal control review

The Board is responsible for establishing and maintaining the Company's systems of internal control and for reviewing their effectiveness.

An ongoing process, in accordance with the guidance of the Turnbull Committee on internal control, issued in September 1999, is in place for identifying, evaluating and managing risks faced by the Company. This process, together with key procedures established with a view to providing effective financial control, has been in place for the full financial year and up to the date the financial statements were approved.

The risk management process and systems of internal control are designed to manage rather than eliminate the risk of failure to achieve the Company's objectives. It should be recognised that such systems can only provide reasonable, rather than absolute, assurance against material misstatement or loss.

Internal control assessment process

Risk assessment and the review of internal controls is undertaken by the Board in the context of the Company's overall investment objective. The review covers the key business, operational, compliance and financial risks facing the Company. In arriving at its judgement of what risks the Company faces, the Board has considered the Company's operations in the light of the following factors:

- the nature and extent of risks which it regards as acceptable for the Company to bear within its overall business objective;
- the threat of such risks becoming a reality;
- the Company's ability to reduce the incidence and impact of risk on its performance;
- the cost to the Company and benefits related to the review of risk and associated controls of the Company; and
- the extent to which third parties operate the relevant controls.

Against this background the Board has split the review into four sections reflecting the nature of the risks being addressed. The sections are as follows:

- corporate strategy;
- published information and compliance with laws and regulations;
- relationship with service providers; and
- investment and business activities.

Given the nature of the Company's activities and the fact that most functions are subcontracted, the Directors have obtained information from key third-party suppliers regarding the controls operated by them. To enable the Board to make an appropriate risk and control assessment, the information and assurances sought from third parties include the following:

- details of the control environment;
- identification and evaluation of risks and control objectives;
- assessment of the communication procedures; and
- assessment of the control procedures.

The key procedures which have been established to provide effective internal financial controls are as follows:

- investment management is provided by Chelverton. The Board is responsible for the implementation of the overall investment policy and monitors the action of the Manager at regular Board meetings;

- the provision of administration, accounting and company secretarial duties is the responsibility of Capita Sinclair Henderson Limited;
- custody of assets is undertaken by HSBC Bank plc;
- the duties of investment management, accounting and custody of assets are segregated. The procedures of the individual parties are designed to complement one another;
- the non-executive Directors of the Company clearly define the duties and responsibilities of their agents and advisers in the terms of their contracts. The appointment of agents and advisers is conducted by the Board after consideration of the quality of the parties involved; the Board monitors their ongoing performance and contractual arrangements;
- mandates for authorisation of investment transactions and expense payments are set by the Board; and
- the Board reviews detailed financial information produced by the Manager and the Secretary on a regular basis.

The Company does not have an internal audit function. All of the Company's management functions are delegated to independent third parties whose controls are reviewed by the Board. It is therefore felt that there is no need for the Company to have an internal audit function. However, this need is reviewed annually.

Company Secretary

The Board has direct access to the advice and services of the Company Secretary, Capita Sinclair Henderson Limited, which is responsible for ensuring that Board and Committee procedures are followed and that applicable regulations are complied with. The Secretary is also responsible to the Board for ensuring timely delivery of information and reports and that statutory obligations of the Company are met.

Dialogue with shareholders

Communication with shareholders is given a high priority by both the Board and the Manager and all Directors are available to enter into dialogue with shareholders. Major shareholders of the Company are offered the opportunity to meet with the independent non-executive Directors of the Board in an attempt to ensure that their views are understood. All shareholders are encouraged to attend and, where entitled, vote at the Annual General Meeting, during which the Board and the Investment Manager are available to discuss issues affecting the Company and shareholders have the opportunity to address questions to the Investment Manager, the Board and the Chairman of the Board's standing committees.

Any shareholder who would like to lodge questions in advance of the Annual General Meeting is invited to do so either on the reverse of the proxy card or in writing to the Company Secretary at the address detailed inside the back cover. The Company always responds to letters from individual shareholders.

The Annual and Interim Reports of the Company are prepared by the Board and its advisers to present a full and readily understandable review of the Company's performance. Copies are dispatched to shareholders by mail and are also available for downloading from the Investment Manager's website.

Statement of Directors' responsibilities

in respect of the financial statements

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

UK company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the net revenue and total return of the Company for that year. The Directors have elected to prepare the Company's financial statements in accordance with International Financial Reporting Standards ('IFRS') adopted by the European Union. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates which are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with International Financial Reporting Standards adopted by the European Union, and disclose particulars of any material departure from those standards and the reasons for it; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Company is required to keep accounting records which are sufficient to disclose with reasonable accuracy, at any time, the financial position of the Company and which enable the Directors to ensure that the financial statements comply with the Companies Act 1985. The Directors are also responsible for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.

The Directors are responsible for ensuring that the Report of the Directors and other information included in the Annual Report is prepared in accordance with applicable company law. They are also responsible for ensuring that the Annual Report includes information required by the Listing Rules of the Financial Services Authority.

The financial statements are published on www.chelvertonam.com, which is a website maintained by the Investment Manager. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Independent Auditors' report

to the members of Small Companies PLC

We have audited the financial statements of Small Companies PLC for the year ended 30 April 2006 which comprise the Income statement, the Balance sheet, the Statement of cash flows and the related notes 1 to 18.

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 auditor's 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' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and those International Financial Reporting Standards ('IFRSs') adopted for use in the European Union are set out in the Statement of Directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and International Standards on Auditing (UK and Ireland).

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

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

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's report, the Investment Manager's report, and shareholder information. 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 International Standards on Auditing (UK and Ireland) 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. 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.

Independent Auditors' report (continued)

to the members of Small Companies PLC

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 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.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with those IFRSs adopted for use in the European Union, of the state of affairs of the Company at 30 April 2006 and of its net revenue and total return for the year then ended;

- the financial statements have been properly prepared in accordance with the Companies Act 1985; and

- the information given in the Report of the Directors is consistent with the financial statements.

Baker Tilly, London
Registered Auditors
Chartered Accountants
18 October 2006

Income statement

for the year ended 30 April 2006

	Note	2006 Revenue £'000	2006 Capital £'000	2006 Total £'000	2005* Revenue £'000	2005* Capital £'000	2005* Total £'000
Investments							
Gains on investments	7	**–**	**–**	**–**	–	–	–
Income	2	**2**	**–**	**2**	2	–	2
Expenses							
Other expenses	3	**(14)**	**–**	**(14)**	(10)	–	(10)
Net return before and after taxation but before appropriations to non-equity shareholders		**(12)**	**–**	**(12)**	(8)	–	(8)
Appropriations in respect of:							
Zero Dividend Preference shares		**–**	**(791)**	**(791)**	–	(733)	(733)
Preference shares		**–**	**(4)**	**(4)**	–	(4)	(4)
Ordinary shares		**12**	**795**	**807**	8	737	745
Net return for the year		**–**	**–**	**–**	–	–	–

	Note	2006 Revenue £	2006 Capital £	2006 Total £	2005* Revenue £	2005* Capital £	2005* Total £
Return per Ordinary share	6	**(6,000)**	**(397,500)**	**(403,500)**	(4,000)	(368,500)	(372,500)
Return per Preference share	6	**–**	**0.13**	**0.13**	–	0.12	0.12
Return per Zero Dividend Preference share	6	**–**	**0.13**	**0.13**	–	0.12	0.12

The total column of this statement is the income statement of the Company.

All items in the above statement derive from continuing operations. No operations were acquired or discontinued during the year.

These financial statements have been prepared under International Financial Reporting Standards ('IFRS'). Applicable accounting policies and transition statements as required by IFRS 1: First-Time Adoption are included in the notes to the financial statements.

* These values have been adjusted for the adoption of IFRS from those presented in the annual report for the year ended 30 April 2005. Reconciliations are shown in the notes to the financial statements.

The notes on pages 22 to 38 form part of these financial statements.

Balance sheet
as at 30 April 2006

	Note	2006 £'000	2005* £'000
Non-current assets			
Fair value through profit or loss investments	7	**–**	27
Loans and receivables	8	**–**	9,966
		–	9,993
Current assets			
Fair value through profit or loss investments	7	**27**	–
Loans and receivables	8	**10,773**	–
Debtors	9	**1**	1
Cash and cash equivalents		**2**	2
		10,803	3
Total assets		**10,803**	9,996
Current liabilities			
Loan from parent undertaking		**(54)**	(45)
Creditors	10	**(10)**	(7)
Liabilities due to non-equity shareholders:			
Zero Dividend Preference shares	12	**(10,685)**	–
Preference shares	12	**(54)**	–
Ordinary shares (£2)		**–**	–
		(10,803)	(52)
Total assets less current liabilities		**–**	9,944
Non-current liabilities			
Liabilities due to non-equity shareholders:			
Zero Dividend Preference shares	12	**–**	(9,894)
Preference shares	12	**–**	(50)
Ordinary shares (£2)		**–**	–
		–	(9,944)
Total liabilities		**(10,803)**	(9,996)
Net assets		**–**	–
Net asset value per:		**£**	£
Ordinary share	12	–	–
Preference share	12	**1.71**	1.58
Zero Dividend Preference share	12	**1.71**	1.58

These accounts have been prepared under International Financial Reporting Standards ('IFRS'). Applicable accounting policies and transition statements as required by IFRS 1: First-Time Adoption are included in the notes to the financial statements.

* These values have been adjusted for the adoption of IFRS from those presented in the annual report for the year ended 30 April 2005. Reconciliations are shown in the notes to the financial statements.

The notes on pages 22 to 38 form part of these financial statements.

These financial statements were approved by the Board and authorised for issue on 18 October 2006.
Lord Lamont of Lerwick, Chairman

Statement of cash flows

for the year ended 30 April 2006

	Note	2006 £'000	2005 £'000
Operating activities			
Investment income received		**2**	2
Other cash payments		**(2)**	(1)
Net cash inflow from operating activities	13	**–**	1
Increase in cash and cash equivalents for the year		**–**	1
Cash and cash equivalents at start of year		**2**	1
Cash and cash equivalents at end of year		**2**	2

These financial statements have been prepared under International Financial Reporting Standards ('IFRS'). Applicable accounting policies and transition statements as required by IFRS 1: First-Time Adoption are included in the notes to the financial statements.

The notes on pages 22 to 38 form part of these financial statements.

Notes to the financial statements
as at 30 April 2006

1 ACCOUNTING POLICIES

Basis of preparation/Statement of compliance
The financial statements of the Company have been prepared in conformity with International Financial Reporting Standards ('IFRS') issued by the International Accounting Standards Board (as adopted by the European Union), interpretations issued by the International Financial Reporting Interpretations Committee, and applicable requirements of United Kingdom company law, and reflect the following policies which have been adopted and applied consistently.

These are the Company's first results prepared in conformity with IFRS and IFRS 1: First Time Adoption has been applied. All accounting policies are consistent with the policies used in the previous UK GAAP financial statements, with the exception of those referred to in the transition statements.

An explanation of how the transition to IFRS has affected the reported financial position and financial performance of the Company is provided in note 18.

At the date of authorisation of these financial statements the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

- IFRS 7 Financial instruments: Disclosures; and the related amendment to International Accounting Standard ('IAS') 1 on capital disclosures.

- IFRIC 4 Determining whether an arrangement contains a lease.

- IFRIC 5 Rights to interests arising from decommissioning restoration and environmental rehabilitation funds.

- IFRIC 8 Scope of IFRS 2 Share – based payments.

- IFRIC 9 Reassessment of embedded derivatives.

The Directors anticipate that the adoption of these Standards and Interpretations will have no material impact on the Group when the relevant standards come into effect for periods commencing on or after 1 January 2007.

Convention
The financial statements are presented in Sterling rounded to the nearest thousand. The financial statements have been prepared on a going concern basis under the historical cost convention, except for the measurement at fair value of investments classified as fair value through profit or loss. Where presentational guidance set out in the Statement of Recommended Practice regarding the Financial Statements of Investment Trust Companies ('SORP'), issued in 2003 and revised in December 2005, is consistent with the requirements of IFRS, the Directors have sought to prepare the financial statements on a consistent basis compliant with the recommendations of the SORP.

Investments
All investments held by the Company are classified as 'fair value through profit or loss'. Investments are initially recognised at cost, being the fair value of the consideration given. Interest accrued on fixed interest rate securities at the date of purchase or sale is accounted for separately as accrued income or as an income receipt, so that the value or purchase price or sale proceeds is shown net of such items.

1 ACCOUNTING POLICIES (continued)

After initial recognition, investments are measured at fair value, with unrealised gains and losses on investments and impairment of investments recognised in the income statement and allocated to capital. Realised gains and losses on investments sold are calculated as the difference between sales proceeds and cost.

For investments actively traded in organised financial markets, fair value is generally determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date, without adjustment for transaction costs necessary to realise the asset.

Loan Note

The Company holds a non-interest bearing Loan Note in Small Companies Dividend Trust PLC. Under IAS 39 ‘Financial Instruments: Recognition and Measurement’ the Loan Note is carried at amortised cost using the effective interest method. Amortised cost represents the initial cost of the Loan Note plus a proportion of the expected surplus on redemption. The expected surplus on redemption is allocated to accounting periods at a constant rate over the life of the Loan Note.

Financial instruments

It is the Company’s policy not to trade in derivative financial instruments.

Trade date accounting

All “regular way” purchases and sales of financial assets are recognised on the “trade date” i.e., the day that the entity commits to purchase or sell the asset. Regular way purchases, or sales, are purchases or sales of financial assets that require delivery of the asset within a time frame generally established by regulation or convention in the market place.

Income

Dividends receivable on quoted equity shares are taken into account on the ex-dividend date. Where no ex-dividend date is quoted, they are brought into account when the Company’s right to receive payment is established. Other investment income and interest receivable are included in the financial statements on an accruals basis. Dividends received from UK registered companies are accounted for net of imputed tax credits.

Expenses

All expenses are accounted for on an accruals basis. All expenses are charged through the revenue account in the income statement except as follows:

- expenses which are incidental to the acquisition of an investment are included within the costs of the investment;
- expenses which are incidental to the disposal of an investment are deducted from the disposal proceeds of the investments; and
- expenses are charged to capital reserve where a connection with the maintenance or enhancement of the value of the investments can be demonstrated.

Notes to the financial statements (continued)
as at 30 April 2006

1 ACCOUNTING POLICIES (continued)

Cash and cash equivalents

Cash in hand and in banks and short-term deposits which are held to maturity are carried at cost. Cash and cash equivalents are defined as cash in hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

Zero Dividend Preference, Preference and Ordinary shares

The appropriations in respect of the Zero Dividend Preference shares and Preference shares necessary to increase the Company's liabilities to the redemption values are allocated to capital in the income statement. This treatment reflects the Board's long-term expectations that the entitlements of the Zero Dividend Preference and Preference shareholders will be satisfied out of gains arising on investments held primarily for capital growth.

Under IAS 32 'Financial Instruments: Disclosure and Presentation' the interests of the Zero Dividend Preference, Preference and Ordinary shareholders are no longer shown as equity under capital and reserves on the balance sheet, but are re-classified as liabilities falling due on 30 April 2007. These changes are presentational and have no impact on the Company's net assets per share or returns per share, which are calculated using assets attributable to non-equity shareholders.

Taxation

There is no charge to income tax as the Company's allowable expenses exceed its taxable income. Deferred tax assets in respect of unrelieved excess expenses are not recognised as it is unlikely that the Company will generate sufficient taxable income in the future to utilise these expenses.

2 INCOME

	2006	2005
	£'000	£'000
Income from listed investments		
Interest and other dividends from listed investments	**2**	2
Other income		
Bank interest receivable	**–**	–
Total income	**2**	2
Total income comprises:		
Interest	**2**	2
	2	2

3 OTHER EXPENSES

	2006 Revenue £'000	2006 Capital £'000	2006 Total £'000	2005 Revenue £'000	2005 Capital £'000	2005 Total £'000
Auditors' remuneration:						
audit services	**3**	**–**	**3**	3	–	3
non audit services	**–**	**–**	**–**	–	–	–
Other expenses	**11**	**–**	**11**	7	–	7
	14	**–**	**14**	10	–	10

4 DIRECTORS REMUNERATION

The Directors are remunerated by the parent company and the amounts in respect of their services as Directors of Small Companies PLC are not separately identifiable.

5 TAXATION

	2006 £'000	2005 £'000
Based on the revenue return for the year		
Current tax	**–**	–
Deferred tax	**–**	–

The current tax charge for the year is higher than the standard rate of corporation tax in the UK of 19% (2005: 19%). The differences are explained below:

	2006 £'000	2005 £'000
Revenue on ordinary activities before taxation	**(12)**	(8)
Theoretical tax at UK corporation rate of 19% (2005: 19%)	**(2)**	(2)
Effects of:		
Excess expenses in the year	**2**	2
Actual current tax charged to the revenue account	**–**	–

The Company has unrelieved excess expenses of £55,000 (2005: £44,000). It is unlikely that the Company will generate sufficient taxable profits in the future to utilise these expenses and therefore no deferred tax asset has been recognised.

6 RETURN PER SHARE

Ordinary shares

Revenue return per Ordinary share is based on the net loss on ordinary activities before and after taxation of £12,000 (2005: £8,000) and on 2 Ordinary shares (2005: 2), being the weighted average number of Ordinary shares in issue during the year.

Capital return per Ordinary share is based on capital losses of £795,000 (2005: £737,000) and on 2 Ordinary shares (2005: 2), being the weighted average number of Ordinary shares in issue during the year.

Preference shares

Capital return per Preference share is based on appropriations of £4,000 (2005: £4,000) and on 31,260 Preference shares (2005: 31,260), being the weighted average number of Preference shares in issue during the year.

Zero Dividend Preference shares

Capital return per Zero Dividend Preference share is based on appropriations of £791,000 (2005: £733,000) and on 6,250,000 Zero Dividend Preference shares (2005: 6,250,000), being the weighted average number of Zero Dividend Preference shares in issue during the year.

7 INVESTMENTS

	2006 **£'000**	2005 £'000
Opening book cost	**31**	31
Opening unrealised deprecation	**(4)**	(4)
Opening valuation	**27**	27
Listed investments	**27**	27
Movements in the year:		
Purchases at cost	**–**	–
Change in unrealised depreciation	**–**	–
Closing valuation	**27**	27
Closing book cost	**31**	31
Closing unrealised depreciation	**(4)**	(4)
	27	27
Change in unrealised depreciation	**–**	–
Gains on investments	**–**	–

8 LOANS AND RECEIVABLES

The Company holds a non-interest bearing Cumulative Subordinated Unsecured Loan Note in Small Companies Dividend Trust PLC. The Loan Note will be repaid or redeemed at par on 30 April 2007 or, if required by the Company at any time prior to that date.

	2006 £'000	2005 £'000
Loan Note book value	**6,258**	6,258
Amount receivable under Subscription Agreement	**4,515**	3,708
Loans and receivables	**10,773**	9,966

Further details of the commitment to subscribe for shares under the Subscription Agreement are disclosed in note 11.

9 DEBTORS – amounts falling due within one year

	2006 £'000	2005 £'000
Prepayments and accrued income	**1**	1
	1	1

10 CREDITORS – amounts falling due within one year

	2006 £'000	2005 £'000
Other creditors	**10**	7
	10	7

11 SHARE CAPITAL

	2006 £	2005 £
Authorised		
3 Ordinary shares of 100p each	**3**	3
31,260 Preference shares of 100p each	**31,260**	31,260
6,250,000 Zero Dividend Preference shares of 0.5p each	**31,250**	31,250
	62,513	62,513
Issued, allotted and fully paid		
2 Ordinary shares of 100p each	**2**	2
31,260 Preference shares of 100p each	**31,260**	31,260
6,250,000 Zero Dividend Preference shares of 0.5p each	**31,250**	31,250
	62,512	62,512

11 SHARE CAPITAL (continued)

As to dividends each year

Ordinary shares and Preference shares are entitled to any revenue profits which the Company may determine to distribute as dividends in respect of any financial period to be distributed in aggregate, one half amongst the Ordinary shareholders and one half amongst the Preference shareholders. It is not expected that any such dividends will be declared.

The holders of the Zero Dividend Preference shares are not entitled to any dividends.

Commitment to subscribe for shares

The Company has entered into an agreement with its parent company, Small Companies Dividend Trust PLC ('SCDT'), pursuant to which SCDT will subscribe on 30 April 2007 for one Ordinary share in the Company. The subscription would be at such a premium as would result in the assets of the Company being sufficient to satisfy the capital entitlement on 30 April 2007 of 184.63p per share, £11,597,000 in total, of the Zero Dividend Preference shares and the Preference shares in issue on that date. This assumes that the Group has sufficient assets as of 30 April 2007 to repay the Zero Dividend Preference shares and the Preference shares. As at 30 April 2006 the Group had total assets available for repayment of the Zero Dividend Preference shares and the Preference shares of £50,534,000 (2005: £37,545,000). The value of the Group's assets would have to fall at a rate of 77.05% per annum for it to be unable to meet the full capital repayment entitlements of the Zero Dividend Preference shares and Preference shares on the scheduled repayment date of 30 April 2007.

As to capital on winding up

On a winding up, holders of Zero Dividend Preference shares and Preference shares are entitled to a payment of an amount equal to 100p per share increased daily from 13 May 1999 at such a compound rate as will give an entitlement to 184.63p for each Zero Dividend Preference share and Preference share at 30 April 2007. If any dividends have been paid in respect of the Preference shares the entitlement of the holders of the Preference shares to any return of capital shall be reduced so that the internal rate of return received in respect of the Preference shares shall be equal to the internal rate of return received in respect of the Zero Dividend Preference shares.

The holders of Ordinary shares will receive all the assets available for distribution to shareholders after payment of all debts and satisfaction of all liabilities and settlement of the full entitlements of the Zero Dividend Preference and Preference shareholders of the Company rateably according to the amounts paid or credited as paid up on the Ordinary shares held by them respectively.

As to voting

Holders of Ordinary shares and Preference shares are entitled to receive notice of, attend and vote at Annual General Meetings.

Holders of Zero Dividend Preference shares do not generally have the right to attend and vote at any general meeting.

Duration

The Articles of Association provide that the Directors shall convene an Extraordinary General Meeting of the Company to be held on 30 April 2007, or if that day is not a business day, on the immediate preceding business day, at which a special resolution shall be proposed, pursuant to section 84 of the Insolvency Act 1986 requiring the Company to be wound up voluntarily unless the Directors shall have previously been released from their obligations to do so by a special resolution passed not earlier than 30 April 2006. If the Directors have been released from this obligation to convene such an Extraordinary General Meeting they shall convene an Extraordinary General Meeting every fifth year thereafter for as long as the Company remains in existence, at which a winding up resolution shall be proposed, unless they have previously been relieved from such obligation to do so by a special resolution passed at the Annual General Meeting held in the previous year.

12 NET ASSET VALUE PER SHARE

The net asset value per share and the net assets attributable at the year end are as follows:

	Net asset value per share 2006 £	**Total assets attributable 2006 £'000**	Net asset value per share 2005* £	Total assets attributable 2005* £'000
Ordinary shares	**–**	**–**	–	–
Preference shares	**1.71**	**54**	1.58	50
Zero Dividend Preference shares	**1.71**	**10,685**	1.58	9,894

Although under IFRS the Ordinary shares, Preference shares and Zero Dividend Preference shares are classed as liabilities rather than equity, the table below shows, for information only, how the assets attributable to them are comprised in terms of share capital and reserves.

Total net assets attributable to non-equity shareholders are represented by:

	2006 £'000	2005* £'000
Called up share capital	**62**	62
Share premium account	**6,220**	6,220
Capital reserve realised	**(4,458)**	(3,663)
Capital reserve unrealised	**4,511**	3,704
Redemption reserve	**4,458**	3,663
Revenue reserve	**(54)**	(42)
Total assets attributable to shareholders	**10,739**	9,944

* These values have been adjusted for the adoption of IFRS from those presented in the annual report for the year ended 30 April 2005. Reconciliations are shown in note 18.

Notes to the financial statements (continued)
as at 30 April 2006

12 NET ASSET VALUE PER SHARE (continued)

The movement in net assets attributable to non-equity shareholders is set out below:

	Share capital £'000	Share premium account £'000	Capital reserve realised £'000	Capital reserve unrealised £'000	Redemption reserve £'000	Revenue reserve £'000	Total £'000
At 1 May 2005	62	6,220	(3,663)	(4)	3,663	(42)	6,236
Restatement (note 18(c))	–	–	–	3,708	–	–	3,708
At 1 May 2005 (restated)	62	6,220	(3,663)	3,704	3,663	(42)	9,944
Appropriations in respect of:							
Zero Dividend Preference shares	–	–	(791)	–	791	–	–
Preference shares	–	–	(4)	–	4	–	–
Ordinary shares	–	–	–	807	–	–	807
Net revenue for the year	–	–	–	–	–	(12)	(12)
At 30 April 2006	**62**	**6,220**	**(4,458)**	**4,511**	**4,458**	**(54)**	**10,739**
At 1 May 2004	62	6,220	(2,926)	(4)	2,926	(34)	6,244
Restatement (note 18(b))	–	–	–	2,963	–	–	2,963
At 1 May 2004 (restated)	62	6,220	(2,926)	2,959	2,926	(34)	9,207
Appropriations in respect of:							
Zero Dividend Preference shares	–	–	(733)	–	733	–	–
Preference shares	–	–	(4)	–	4	–	–
Ordinary shares	–	–	–	745	–	–	745
Net revenue for the year	–	–	–	–	–	(8)	(8)
At 30 April 2005 (restated)	**62**	**6,220**	**(3,663)**	**3,704**	**3,663**	**(42)**	**9,944**

13 RECONCILIATION OF NET RETURN TO NET CASH FLOW

	2006 £'000	2005 £'000
Net return before interest payable and taxation	**(12)**	(8)
Increase in creditors	**12**	9
	–	1

14 ULTIMATE PARENT UNDERTAKING

The Company is a wholly owned subsidiary of Small Companies Dividend Trust PLC, which is registered in England and Wales.

15 RELATED PARTY TRANSACTIONS

The management fee for the Group is charged to and paid by Small Companies Dividend Trust PLC, the Company's parent undertaking. Details of the fee can be found in that Company's Annual Report.

The Company holds a non-interest bearing Loan Note in Small Companies Dividend Trust PLC. Further details are disclosed in note 8.

16 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES

The Company was formed especially for the issue of Zero Dividend Preference shares. Substantially all of the proceeds raised by the Company have been made available to Small Companies Dividend Trust PLC ('SCDT') by way of a Loan Note. The Company's only other investment is in treasury stock which is intended to provide enough income over the life of the Company to cover expenses charged to the revenue account.

Cash, liquid resources and short-term debtors and creditors arise from the Company's day-to-day operations.

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

The main risks arising from the Company's financial instruments are interest rate risk and liquidity risk. The Board reviews and agrees policies for managing these risks and they are summarised below.

Interest rate risk
The Company has small amounts of cash which will be subject to fluctuations in current and future interest rates.

Liquidity risk
The Company's assets include a non-interest bearing Loan Note which, if required, can be repaid or redeemed at any time.

The majority of the Group's assets are small listed securities, which can be sold under normal conditions to meet funding commitments if necessary. They may be difficult to realise in adverse market conditions.

As required by International Accounting Standard No. 32 Financial Instruments: Disclosure and Presentation, an analysis of financial assets and liabilities, which identifies the risk to the Company of holding such items, is given on pages 32 and 33.

16 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES (continued)

Financial assets

The Company holds investments, these are treasury stock and a Loan Note issued to SCDT.

The interest rate profile of the Company's financial assets is as follows:

	Total £'000	Financial assets on which no interest is paid £'000	Floating rate financial assets £'000	Fixed rate financial assets £'000	Interest rate %	Maturity date
30 April 2006						
Treasury stock	**27**	**–**	**–**	**27**	**8.5***	**2007**
Loan Note	**6,258**	**6,258**	**–**	**–**		
Amount receivable under Subscription Agreement	**4,515**	**4,515**	**–**	**–**		
Cash and debtors	**3**	**1**	**2**	**–**		
	10,803	**10,774**	**2**	**27**		
30 April 2005						
Treasury stock	27	–	–	27	8.5*	2007
Loan Note	6,258	6,258	–	–		
Amount receivable under Subscription Agreement	3,708	3,708	–	–		
Cash and debtors	3	1	2	–		
	9,996	9,967	2	27		

* The interest rates shown in the above two tables are the coupon rates of the treasury stock and not the yields.

Financial liabilities

The Company finances its operations through non-equity shareholders funds and retained reserves. The only financial liabilities of the Company are loans from the parent undertaking, creditors and non-equity shareholders. None of these liabilities are interest bearing.

16 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES (continued)

The maturity profile of the Company's financial liabilities as at 30 April 2006 is as follows:

	2006	2005
	£'000	£'000
In one year or less	**10,803**	52
In more than one but less than two years	–	9,944
	10,803	9,996

The Company's investments are recorded in the financial statements at fair value. The Directors believe that there is no material difference between the fair values and the carrying values of the Group's other financial assets and financial liabilities.

17 POST BALANCE SHEET EVENTS

On 20 July 2006 the Board announced that it was considering proposals for a restructuring of the Company by extending the life of the Company and increasing its size through a Zero Dividend Preference share placing and tender offer. At the Class and Extraordinary General Meetings held in August 2006 shareholders did not pass the extension of life proposals or the placing and tender offer for Zero Dividend Preference shares. The Company's wind-up date remains 30 April 2007.

18 TRANSITION STATEMENTS

(a) Reconciliation of income
for the year ended 30 April 2005 (the last period presented under previous GAAP)

	Note	Previous GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
Investments				
Gains on investments	1	–	–	–
Income		2	–	2
Expenses				
Other expenses		(10)	–	(10)
Net return before and after taxation but before appropriations to non-equity shareholders		(8)	–	(8)
Appropriations in respect of:				
Zero Dividend Preference shares		(733)	–	(733)
Preference shares		(4)	–	(4)
Ordinary shares	2	–	745	745
Net return for the year		(745)	745	–

Notes to the reconciliation of income at 30 April 2005:

1. Under previous UK GAAP the investments made by the Company in quoted stocks were valued in accordance with the Statement of Recommended Practice: Financial Statements of Investment Trust Companies at their market value. Convention suggested that where a bid and offer price existed the mid market price was the most appropriate for investment trust companies. Under IFRS, quoted investments are valued at bid price. The movement between the valuation of investments under previous UK GAAP for the year and their movement under IFRS for the year was not significant.

2. Under IFRS the Ordinary shares issued by the Company are treated as a liability rather than as equity under previous UK GAAP. This change has no effect on reported earnings per share.

18 TRANSITION STATEMENTS (continued)

(b) Reconciliation of equity
as at 1 May 2004 (date of transition)

	Note	Previous GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
Non-current assets				
Fair value through profit or loss investments	1	27	–	27
Loans and receivables	2	6,258	2,963	9,221
		6,285	2,963	9,248
Current assets				
Debtors		1	–	1
Cash and cash equivalents		1	–	1
Total assets		6,287	2,963	9,250
Current liabilities				
Loan from parent undertaking		(35)	–	(35)
Creditors		(8)	–	(8)
		(43)	–	(43)
Total assets less current liabilities		6,244	2,963	9,207
Non-current liabilities				
Liabilities due to non-equity shareholders:				
Zero Dividend Preference shares	3	–	(9,161)	(9,161)
Preference shares	3	–	(46)	(46)
Ordinary shares (£2)	3	–	–	–
		–	(9,207)	(9,207)
Total liabilities		(43)	(9,207)	(9,250)
Net assets		6,244	(6,244)	–
Share capital and reserves				
Called up share capital	3	62	(62)	–
Share premium account	3	6,220	(6,220)	–
Capital reserve	3	(2,930)	2,930	–
Redemption reserve	3	2,926	(2,926)	–
Revenue reserve		(34)	34	–
Shareholders' funds		6,244	(6,244)	–

18 TRANSITION STATEMENTS (continued)

(b) Reconciliation of equity (continued)

Notes to the reconciliation of equity at 1 May 2004:

1. Under previous UK GAAP the investments made by the Company in quoted stocks were valued in accordance with the Statement of Recommended Practice: Financial Statements of Investment Trust Companies at their market value. Convention suggested that where a bid and offer price existed the mid market price was the most appropriate for investment trust companies. Under IFRS, quoted investments are valued at bid price. The movement between the valuation of investments under previous UK GAAP for the year and their movement under IFRS for the year was not significant.

2. Under IFRS the amount receivable under the Subscription Agreement is carried at amortised cost using the effective interest method, previously under UK GAAP it was not recognised. This change means that loans and receivables increase by £2,963,000.

3. Under IFRS the Zero Dividend Preference shares and Preference shares issued by the Company are treated as a liability and carried at their redemption value at the balance sheet date. This results in liabilities of £9,161,000 and £46,000 being recognised for these entitlements. The Ordinary share capital is also treated as a liability rather than as equity under previous UK GAAP. This particular change is merely presentational and has no effect on net asset values of the share classes.

18 TRANSITION STATEMENTS (continued)

(c) Reconciliation of equity

as at 30 April 2005 (end of last period presented under previous GAAP)

	Note	Previous GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
Non-current assets				
Fair value through profit or loss investments	1	27	–	27
Loans and receivables	2	6,258	3,708	9,966
		6,285	3,708	9,993
Current assets				
Debtors		1	–	1
Cash and cash equivalents		2	–	2
		6,288	3,708	9,996
Current liabilities				
Loan from parent undertaking		(45)	–	(45)
Creditors		(7)	–	(7)
		(52)	–	(52)
Total assets less current liabilities		6,236	3,708	9,944
Non-current liabilities				
Liabilities due to non-equity shareholders:				
Zero Dividend Preference shares	3	–	(9,894)	(9,894)
Preference shares	3	–	(50)	(50)
Ordinary shares (£2)		–	–	–
		–	(9,944)	(9,944)
Total liabilities		(52)	(9,944)	(9,996)
Net assets		6,236	(6,236)	–
Share capital and reserves				
Called up share capital	3	62	(62)	–
Share premium account	3	6,220	(6,220)	–
Capital reserve	3	(3,667)	3,667	–
Redemption reserve	3	3,663	(3,663)	–
Revenue reserve		(42)	42	–
Shareholders' funds		6,236	(6,236)	–

18 TRANSITION STATEMENTS (continued)

(c) Reconciliation of equity (continued)

Notes to the reconciliation of equity at 30 April 2005:

1. Under previous UK GAAP the investments made by the Company in quoted stocks were valued in accordance with the Statement of Recommended Practice: Financial Statements of Investment Trust Companies at their market value. Convention suggested that where a bid and offer price existed the mid market price was the most appropriate for investment trust companies. Under IFRS, quoted investments are valued at bid price. The movement between the valuation of investments under previous UK GAAP for the year and their movement under IFRS for the year was not significant.

2. Under IFRS the amount receivable under the Subscription Agreement is carried at amortised cost using the effective interest method, previously under UK GAAP it was not recognised. This change means that loans and receivables increase by £3,708,000.

3. Under IFRS the Zero Dividend Preference shares and Preference shares issued by the Company are treated as a liability and carried at their redemption value at the balance sheet date. This results in liabilities of £9,894,000 and £50,000 being recognised for these entitlements. The Ordinary share capital is also treated as a liability rather than as equity under previous UK GAAP. This particular change is merely presentational and has no effect on net asset values of the share classes.

Shareholder information

Financial calendar

Company's year end	30 April
Annual results announced	June
Annual General Meeting	November
Company's half-year	31 October
Interim results announced	December

Share prices and performance information

The Company's Zero Dividend Preference shares are listed on the London Stock Exchange. The mid-market prices are quoted daily in the *Financial Times* under 'Investment Companies – Zero Dividend Preference shares' and the *Daily Telegraph* under 'Investment Trusts'.

The net asset value is announced weekly to the London Stock Exchange and published monthly via the Association of Investment Companies.

Information about the Company can be obtained via the Chelverton internet site at www.chelvertonam.com. Any enquiries can also be e-mailed to cam@chelverton.com.

Share register enquiries

The register for the Zero Dividend Preference shares is maintained by Lloyds TSB Registrars. In the event of queries regarding your holding, please contact the Registrar on 01903 502541. Changes of name and/or address must be notified in writing to the Registrar.

Saving scheme

The Investment Manager offers a saving scheme, 'Chelverton Savings Plan' as a means for existing and new shareholders to purchase shares on a monthly, lump sum or dividend reinvestment basis. More details are available on the website www.chelvertonam.com or by telephone 01225 453030.

Small Companies PLC

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the ANNUAL GENERAL MEETING of the Company will be held at 10.45 a.m. on Thursday, 30 November 2006 at Maclay, Murray & Spens, One London Wall, London EC2Y 5AB for the following purposes:

Ordinary Resolutions

1 To receive the Report of the Directors and the audited financial statements for the year ended 30 April 2006.

2 To elect Lord Lamont as a Director.

3 To elect Mr W van Heesewijk as a Director.

4 To re-elect Mr B N Lenygon as a Director.

5 To reappoint Baker Tilly as Auditors and to authorise the Directors to determine their remuneration.

By order of the Board
Capita Sinclair Henderson Limited
Secretary
18 October 2006

Registered office:
Beaufort House
51 New North Road
Exeter EX4 4EP

Notes

1. *Ordinary and Preference shareholders are entitled to attend and vote at the Meeting and are entitled to appoint one or more proxies to attend and vote instead of them. A proxy need not also be a member of the Company. Lodgement of the form of proxy will not preclude a shareholder from attending the Meeting and voting in person.*
2. *Zero Dividend Preference shareholders do not have the right to attend or vote at the Annual General Meeting.*
3. *The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those shareholders registered in the register of members of the Company as at 10.45 a.m. on 28 November 2006 shall be entitled to attend or vote at the aforesaid 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 securities after 10.45 a.m. on 28 November 2006 shall be disregarded in determining the rights of any person to attend or vote at the Meeting.*
4. *Shareholders (and any proxies or representatives they appoint) agree, by attending the meeting, that they are expressly requesting, and that they are willing to receive, any communications (including communications relating to the Company's securities) made at the meeting.*
5. *A statement of all transactions of each Director and of their family interests in the share capital of the Company and the Articles of Association will be available for inspection at the registered office of the Company during usual business hours on any weekday (except Saturdays and Public Holidays) until the date of the Meeting and at the place of the Meeting for a period of fifteen minutes prior to and during the Meeting.*

Small Companies PLC

Proxy form

I/We (Block Capitals please) . . . .

. . . .

being a member/members of the above-named Company, hereby appoint the Chairman of the Meeting/

. . . .

as my/our proxy to vote for me/us on my behalf at the Annual General Meeting of the Company to be held at 10.45 a.m. at Maclay, Murray & Spens, One London Wall, London EC2Y 5AB on Thursday, 30 November 2006 and at any adjournment thereof.

Signature . . . .

Date 2006

Please indicate with an X in the spaces below how you wish your votes to be cast.

ORDINARY RESOLUTIONS

		FOR	AGAINST	ABSTAIN
RESOLUTION 1	To receive the Report of the Directors and the audited financial statements for the year ended 30 April 2006.			
RESOLUTION 2	To elect Lord Lamont as a Director.			
RESOLUTION 3	To elect Mr W van Heesewijk as a Director.			
RESOLUTION 4	To re-elect Mr B N Lenygon as a Director.			
RESOLUTION 5	To reappoint Baker Tilly as Auditors and to authorise the Directors to determine their remuneration.			

NOTES

1. *A member, being an Ordinary or Preference shareholder, may appoint a proxy of their own choice. If such an appointment is made, delete the words 'the Chairman of the Meeting' and insert the name of the person appointed proxy in the space provided.*
2. *If the appointor is a corporation, this form must be under its common seal or under the hand of some officer or attorney duly authorised in that behalf.*
3. *In the case of joint holders, the signature of any one holder will be sufficient, but the names of all the joint holders should be stated.*
4. *If this form is returned without any indication as to how the person appointed proxy shall vote, the Chairman will exercise his discretion as to how he votes or whether he abstains from voting.*
5. *To be valid, this form must be completed and deposited at the office of the Company's Registrar not less than 48 hours before the time fixed for holding the Meeting or adjourned Meeting.Only those shareholders registered in the register of members 48 hours prior to the meeting shall be entitled to attend and vote at the Meeting in respect of the number of shares registered in their name at that time. Changes to the register of members after that time shall be disregarded in determining the rights of any person to attend and vote at the Meeting.*

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Worthing
West Sussex BN99 6ZL

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Notes

Notes

Directors and Advisers

Directors	Lord Lamont of Lerwick (Chairman) Bryan Lenygon John Chappell David Harris William van Heesewijk
Investment Manager	Chelverton Asset Management Limited 11 George Street Bath BA1 2EH Tel: 01225 483030
Secretary and Registered Office	Capita Sinclair Henderson Limited Beaufort House 51 New North Road Exeter EX4 4EP Tel: 01392 412122
Registrar and Transfer Office	Lloyds TSB Registrars The Causeway Worthing West Sussex BN99 6DA Tel: 01903 502541
Bankers	Lloyds TSB Bank Plc 25 Gresham Street London EC2V 7HN
Auditors	Baker Tilly 2 Bloomsbury Street London WC1B 3ST
Solicitors	Maclay, Murray & Spens One London Wall London EC2Y 5AB
Stockbrokers	Fairfax I.S. Limited 46 Berkeley Square London W1J 5AT