# SMALL COMPANIES DIVIDEND TRUST PLC

## Annual Report
for the year ended 30 April 2011

# Investment objective and policy

The investment objective of the Company is to provide Ordinary shareholders with a high income and opportunity for capital growth.

The Company's funds will be invested principally in companies with a market capitalisation of up to £500 million. The Company's portfolio will comprise companies listed on the Official List and companies admitted to trading on AIM. The Company will not invest in other investment trusts or in unquoted companies. No investment will be made in preference shares, loan stock or notes, convertible securities or fixed interest securities.

The full details of the investment policy can be found in the Report of the Directors.

## 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 authorised under the Financial Services and Markets Act 2000.

# Company summary

## History

The Company was launched on 12 May 1999, raising £21.38 million before expenses, by a placing of 15,000,000 Ordinary shares and, through its former subsidiary company, Small Companies PLC, 6,250,000 Zero Dividend Preference shares and 31,260 Preference shares. A further 750,000 Ordinary shares were issued as a result of a placing for cash on 3 March 2000 and on 26 October 2005 a further 500,000 shares were issued. The subsidiary, Small Companies PLC, was placed into members voluntary liquidation on 30 April 2007, following which the capital entitlement of the Zero Dividend Preference and Preference shares were repaid.

## Total net assets and market capitalisation at year end

As at 30 April 2011, the Company had a market capitalisation of £16,331,000 (2010: £13,894,000) and total net assets amounted to £18,208,000 (2010: £15,752,000).

## Management fee

The fee payable to the Investment Manager is 1% of the gross assets of the Company. In addition, a performance fee of 10% of outperformance of the FTSE SmallCap Index is payable, subject to a number of performance requirements as set out on page 16 in the Report of the Directors.

## Ordinary shares of 25p each – 16,250,000 in issue

Holders of Ordinary shares are entitled to dividends. On a winding-up of the Company, Ordinary shareholders will be entitled to all the surplus assets of the Company available after payment of all liabilities. Each holder on a show of hands will have one vote and on a poll will have one vote for each Ordinary share held.

## ISA status

The Company's Ordinary shares are qualifying investments for Individual Savings Accounts ('ISAs').

Registered in England
No. 3749536

A member of the Association of Investment Companies

# Directors

The Directors are:

**The Rt Hon. Lord Lamont of Lerwick*** (Chairman), 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. His current directorships include Balli Group plc, RAB Capital plc, Phorm, Inc. and Jupiter Second Split Trust plc, and he is chairman of Jupiter Adria Plc managed by Jupiter Asset Management Limited.

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

**David Harris***, is chief executive of InvaTrust Consultancy Limited. 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 AIC with specific responsibility for training and education of independent financial advisers. He is a non-executive director of two other investment trust companies, the Character Group plc, Aseana Properties Limited, Core VCT V PLC and COBRA Holdings plc.

Mr Harris was appointed to the Board on 30 May 2000 and is Audit Committee Chairman.

**William van Heesewijk**, began his career with Lloyds Bank International in 1981 working for both the merchant banking and investment management arms. He has been involved in the investment trust industry since 1987 in various capacities ranging from sales and marketing to corporate product development, having worked for Fidelity Investments International, Gartmore Investment Management plc and BFS Investments plc and is currently Business Development Director with Chelverton Asset Management Limited.

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

**Howard Myles*** was a partner in Ernst & Young from 2001 to 2007 and was responsible for the Investment Funds Corporate Advisory team. He was previously with UBS Warburg from 1987 to 2001. Howard began his career in stockbroking in 1971 as an equity salesman and in 1975 joined Touche Ross & Co where he qualified as a chartered accountant. In 1978 he joined W Greenwell & Co. in the corporate broking team and in 1987 moved to SG Warburg Securities where he was involved in a wide range of commercial and industrial transactions in addition to leading Warburg's corporate finance function for investment funds. He is now a non-executive director of The World Trust Fund, Aberdeen Private Equity Fund Limited, Baker Steel Resources Trust Limited, BlackRock Hedge Selector Limited and JP Morgan Brazil Investment Trust plc.

Mr Myles was appointed to the Board on 15 March 2011.

* Independent of the Investment Manager

# Investment Manager and Secretary

**Investment Manager: Chelverton Asset Management Limited (‘Chelverton’)**

Chelverton was formed in 1998 by David Horner, a chartered accountant who has considerable experience of analysing investments and working with smaller companies. Chelverton is wholly owned by its employees.

Chelverton is a boutique fund manager focussed on UK small companies and has a successful track record. At 30 April 2011, total funds under management were £100 million including two investment companies and an OEIC. The fund management team comprises David Horner and David Taylor.

Chelverton is authorised and regulated by the Financial Services Authority.

**Secretary: Capita Sinclair Henderson Limited** (trading as Capital Financial Group – Specialist Fund Services)

Capita Sinclair Henderson Limited provides company secretarial and administrative services for the Company. It provides similar services for a large number of different types of companies, including a significant number of investment trust companies.

## Financial highlights

| Capital | 30 April 2011 | 30 April 2010 | % change | Discount 30 April 2011 |
|---|---|---|---|---|
| Total net assets (£'000) | **18,208** | 15,752 | 15.59 | |
| Net asset value per Ordinary share† | **112.05p** | 96.94p | 15.59 | |
| Mid-Market Price per Ordinary share | **100.50p** | 85.50p | 17.54 | 10.31% |
| FTSE All-Share Index | **3,155.03** | 2,863.35 | 10.19 | |
| FTSE SmallCap Index | **3,311.47** | 2,960.77 | 11.84 | |

| Revenue | Year ended 30 April 2011 | Year ended 30 April 2010 | % change |
|---|---|---|---|
| Return per Ordinary share | **5.38p** | 4.62p | 16.45% |
| Dividends declared per Ordinary share | **6.20p** | 6.00p | |
| **Total Return** | | | |
| Total assets less current liabilities (excluding bank borrowings) total return* | **17.31%** | 40.70% | |
| Total net assets total return* | **21.21%** | 59.88% | |
| FTSE All-Share Total Return Index | **13.68%** | 26.84% | |
| Total Expense Ratio (including investment management fee and other expenses but excluding performance fee | **1.76%** | 1.77% | |

* Net asset values calculated in accordance with the Articles of Association

† Adding back dividends paid in the year

Negative returns are shown in brackets.

# Chairman's report

### Results

The Company's net asset value per Ordinary share at 30 April 2011 was 112.05p (2010: 96.94p), an increase over the year of 15.6%. During this period the FTSE All-Share Index increased by 10.2% and the FTSE SmallCap Index increased by 11.8%.

Since the Company launched, on 12 May 1999, the FTSE All-Share Index has decreased by 4.8% and the net asset value per Ordinary share has risen by 17.2%. Over the same period the share price has increased by 17.5%. Since the year end, the net asset value per Ordinary share had fallen to 111.87p as at 8 July 2011 after payment of the 2.30p fourth interim dividend.

The Company is currently invested in 59 companies across 18 sectors, this spread creates a well diversified portfolio which will assist the Company in providing a stable platform from which to grow in both capital and revenue terms.

Recent headlines have served to highlight the continued headwinds faced by investors as the rate of recovery in economies globally appears to have slowed. The domestic economy is especially important to the companies that we invest in and despite the current sense of gloom it is interesting to note that consensus earnings estimates for both this year and next are still extremely positive. Whilst these may ultimately prove to be too optimistic, the ability of the corporate sector to continue to beat earnings expectations against the background of declining macro growth forecasts has been one of the most positive features of the last year for our Company.

At the same time an increasing number of company directors appear to be using the improved earnings to try to differentiate their business and attract investors through significant real dividend rises. This is a welcome trend that looks set to continue for the foreseeable future as interest rates remain low and income from the UK equity market remains concentrated within a relatively small number of companies. An increasing number of investors are looking at small and mid-sized companies as a way of diversifying their income portfolios.

### Bank Facility

The Company has borrowing facilities from Lloyds TSB Bank plc represented by a £4 million fixed loan and a £2m overdraft facility with HSBC Bank plc. At the year end £0.25m of the overdraft facility was being used.

The Board have reviewed the borrowing levels and intends to continue to restrict the borrowing arrangements with the bank, so as to limit the total amount of borrowings, to below 30% of total assets at the time of draw down.

### Dividend

The Board has declared a fourth interim dividend of 2.30p per Ordinary share (2010: 2.25p) which, when added to the three quarterly interim dividends of 1.30p (2010: 1.25p), equates to a total dividend for the year of 6.20p per Ordinary share (2010: 6.00p), an increase of 3.3% over the previous year.

The Company has revenue reserves, which after payment of the fourth interim dividend represent 100% of the current annual dividend or 6.21p per Ordinary share.

# Chairman's report (continued)

## Outlook

The recent BoE Inflation Report reduced the UK GDP growth outlook for both 2011 and 2012 and we have, not surprisingly, seen downward pressure on share prices in a number of UK centric businesses such as retailers and contractors that are more likely to be affected by the reduction in consumer and government spending. Despite this the majority of stocks that we invest in continue to improve earnings and we expect this to continue through the next year. At the same time we believe that the very welcome trend of real dividend increases should continue as directors look to provide investors with tangible evidence of the financial health of their companies.

**Lord Lamont of Lerwick**
Chairman
*14 July 2011*

# Investment Manager's report

Investor sentiment towards the UK equity market in the past year has been dominated by discussion about the strength and sustainability of the domestic economic recovery. Although under the new government the way forward has been mapped out there continues to be conflicting evidence regarding the effectiveness of the policies. The increase in VAT, rising inflation, especially food and oil prices, and lower than expected GDP growth have all combined to produce a heightened sense of gloom. At the same time, the problems in the Middle East and Japan and disappointing macro numbers recently from both China and the US have added a Global dimension to the slowdown.

One of the most significant influences for us over the past year has been the fallout from the BP dividend cut which served to highlight the concentration of dividend payments within the UK equity market. This has led some investors to seek to diversify their income holdings and has led to the first signs of an increased awareness of the attractions of domestic small and mid-sized companies. More importantly it has led to a broad range of Company Boards at the smaller end of the market cap range positively reappraising their approach to dividend payments and the message that increasing payouts sends to the stock market.

## Portfolio Review

We have reduced our exposure in the last period to a number of our larger illiquid holdings as their share prices have performed well. In this context we have sold part of our investment in Portmeirion Group, S&U and Sinclair (William) Holdings and re-invested in a number of slightly larger more liquid stocks including, N. Brown, a mail order retailer, Firstgroup, a rail and bus operator and Greene King, a brewer and pub owner. Moving forward we will continue to reduce the concentration amongst our top ten holdings and add to the number of investments in the Company.

As Managers it is reassuring to note that we continue to have a steady stream of new investments ideas that fulfil our strict yield criteria and we have recently added four new holdings to the fund, all on annualised yields of over 5%. Huntsworth is a global public relations business, Wilmington provides information and training to professional business markets, Kcom provides communications services to the personal and business sectors and Charlemagne is a fund management business specialising in emerging markets.

We have also added to a number of our existing holdings at attractive prices including Holidaybreak, Office2Office and Hansard Global. To fund these purchases we have sold Acal after a period of strong performance, HMV and reduced our weightings in both Avesco Group and Dee Valley. At the same time we raised cash from the sale of our holding in Chaucer after the Company was bid for. Another of our holdings, Dawson has just been the subject of an agreed cash offer from Smiths News, another portfolio company.

## Outlook

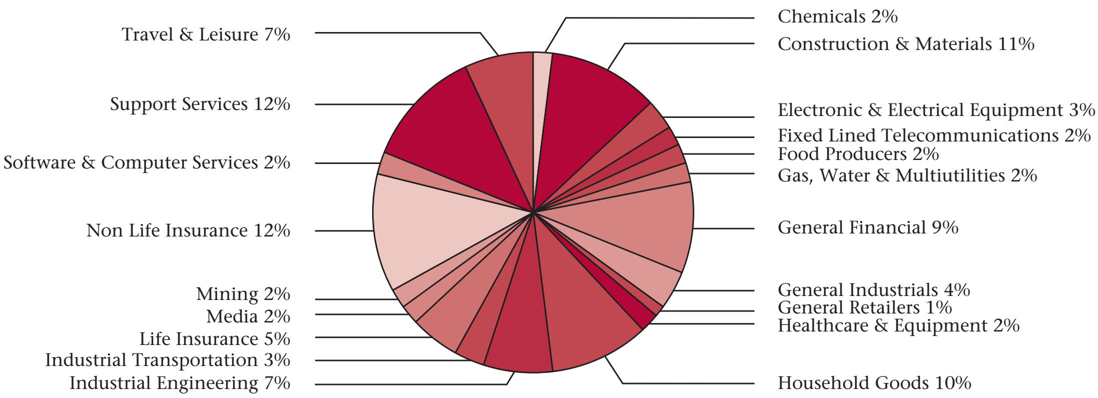
A theme that has remained constant for the past twelve months and that remains valid today is that the 'bottom up' strength of the corporate sector appears at odds with the relatively poor 'top down' macro environment. The companies that we invest in are still, on average, generating cash and profits at rates that are still in excess of expectations, and by and large have not started to put costs back into their businesses after the dramatic cost cutting of 2008 and 2009. This is enabling them to sustain and even improve margins in a period of low sales growth.

Undoubtedly the timing of a sustained recovery in the domestic economy continues to move further into the future with each piece of disappointing macro news. We remain geared to the fortunes of the domestic economy and are well placed to benefit when things pick up. In the meantime the yields and cash flows of our investments should at the very least provide support to current valuations.

# Investment Manager's report (continued)

**Breakdown of Portfolio by Industry**

at 30 April 2011




*Source: Capita Sinclair Henderson Limited (trading as Capita Financial Group – Specialist Fund Services)*

## Twenty Largest Holdings

at 30 April 2011

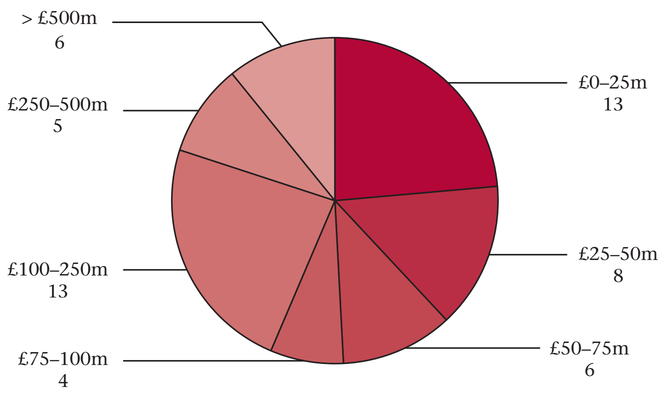
| | | % of portfolio |
|---|---|---|
| **Macfarlane Group** | Packaging distribution | 4.4 |
| **Sinclair (William) Holdings** | Manufactures and distributes a range of products for the retail and horticultural market | 4.3 |
| **S&U** | Consumer credit and car finance throughout the UK | 3.4 |
| **Alumasc Group** | An engineering company focused on the design and manufacture of premium engineering and building products | 3.3 |
| **Victoria** | Manufacturer of carpets | 3.2 |
| **Cineworld Group** | Operation of cinemas in the UK, Ireland and Spain | 2.9 |
| **Chesnara** | Life assurance | 2.8 |
| **Stadium Group** | Manufacture and sale of electronic assemblies and plastic mouldings | 2.8 |
| **Marshalls** | Supplies the domestic, public sector and commercial markets with ranges of hard landscaping products | 2.7 |
| **Portmeirion Group** | Markets and manufactures an extensive range of high quality tableware, cookware and giftware | 2.7 |
| **Trifast** | A leading international manufacturer and distributor of industrial fastenings and components | 2.5 |
| **Hansard Global** | Supports financial advisors with tax efficient custom configured investment products in a life assurance wrapper | 2.4 |
| **Sanderson Group** | UK provider of software solutions and IT services | 2.3 |
| **Beazley** | Specialist underwriting business | 2.3 |
| **Clarke (T)** | Electrical contractors with a distinctive regional business covering the UK | 2.2 |
| **Braemar Shipping Services** | Provides broking and consulting services to the global shipping industry across four business segments: shipbroking, logistics, technical services and environmental services | 2.2 |
| **Office2Office** | Provider of managed procurement and business-critical services | 2.2 |
| **Avesco Group** | Providers of specialist services to the corporate presentation, entertainment and broadcast markets | 2.2 |
| **Electrocomponents** | British-based distributor of electronic components | 2.1 |
| **Personal Group Holdings** | A group of companies providing accident & health insurance, employee benefits, financial advice, and personal insurance and reinsurance broking services | 2.1 |
| Top twenty companies total | | 55.0 |
| Balance held in 35 holdings | | 45.0 |
| **Total portfolio** | | **100.00** |

# Investment Manager's report (continued)

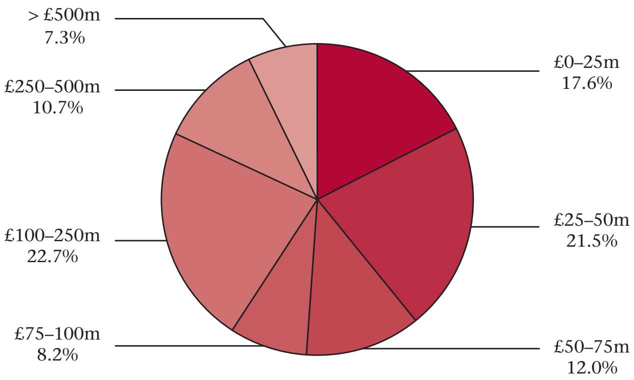
## Breakdown of Portfolio by Market Capitalisation

at 30 April 2011

**Number of Companies**




**% of Portfolio**




*Source: Capita Sinclair Henderson Limited (trading as Capita Financial Group – Specialist Fund Services)*

**David Horner and David Taylor**
Chelverton Asset Management Limited
*14 July 2011*

# Report of the Directors

(which incorporates the Statement on Corporate Governance on pages 18 to 24)

The Directors present their Report and the financial statements of the Company for the year ended 30 April 2011. The registered number of Small Companies Dividend Trust PLC is 3749536.

The Company was incorporated on 6 April 1999 and commenced trading on 12 May 1999. Its capital structure comprises Ordinary shares.

## Business review

*Company status, objective and review*

The principal activity of the Company is to carry on business as an investment trust. The Company has been granted approval from HM Revenue & Customs as an authorised investment trust under section 1158 of the Corporation Tax Act 2010 for the year ended 30 April 2010. The Directors are of the opinion that the Company has conducted its affairs for the year ended 30 April 2011 and subsequently so as to be able to continue to be approved as an authorised investment trust. The Company is an investment company as defined in section 833 of the Companies Act 2006.

The investment objective of the Company is to provide Ordinary shareholders with a high income and opportunity for capital growth.

*Investment policies and restrictions*

The Company's investment policy, as approved by shareholders, is that:

- funds will be invested principally in UK companies with a market capitalisation of up to £500 million at the point of investment;
- a maximum of 20% of the Company's portfolio may be invested in companies without reference to their market capitalisation at the discretion of the Investment Manager;
- the Company will invest in the ordinary shares of companies either listed on the Official List and traded on the London Stock Exchange's Main Market or traded on the London Stock Exchange's Alternative Investment Market;
- no investment will be made in preference shares, loan stock or notes, convertible securities or fixed interest securities or any similar securities convertible into shares; and
- the Company will not invest in the securities of other investment trusts or in unquoted companies.

The Chairman's report on pages 5 and 6 and the Investment Manager's report on pages 7 to 10 give details of the Company's activities during the financial year under review.

*Performance analysis using key performance indicators*

At each quarterly Board meeting the Directors consider a number of key performance indicators ('KPIs') to assess the Company's success in achieving its objectives, including, the net asset value ('NAV'), the movement in the Company's share price, the discount of the share price in relation to the NAV, the dividend per share and the total expense ratio.

- The Company's Statement of Comprehensive Income is set out on page 30.
- A total dividend for the year to 30 April 2011 of 6.20p (2010: 6.00p) per Ordinary share has been declared to shareholders by way of three payments of 1.30p per Ordinary share and a fourth interim payment of 2.30p per Ordinary share.
- The NAV per Ordinary share at 30 April 2011 was 112.05p (2010: 96.94p).

- The total expense ratio (including investment management fees and other expenses but excluding performance fees and exceptional items) for the year ended 30 April 2011 was 1.76% (2010: 1.77%).

*Principal risks*
The Board considers the following as the principal risks facing the Company. Mitigation of these risks is sought and achieved in a number of ways as set out below:

*Market risk*
The Company is exposed to UK market risk due to fluctuations in the market prices of its investments.

The Investment Manager actively monitors economic performance of investee companies and reports regularly to the Board on a formal and informal basis. The Board formally meets with the Investment Manager on a quarterly basis when the portfolio transactions and performance are discussed and reviewed.

The Company is substantially dependent on the services of the Investment Manager's investment team for the implementation of its investment policy.

The Company may hold a proportion of the portfolio in cash or cash equivalent investments from time to time. Whilst during positive stock market movements the portfolio may forego notional gains, during negative market movements this may provide protection.

*Discount volatility*
As with many investment trust companies, discounts can fluctuate significantly.

The Board recognises that, as a closed ended company, it is in the long-term interests of shareholders to reduce discount volatility and believes that the prime driver of discounts over the longer term is performance. The Board, with its advisers, monitors the Company's discount levels and shares may be bought back should it be thought appropriate to do so by the Board.

*Regulatory risks*
A breach of Companies Act regulations and FSA rules may result in the Company being liable to fines or the suspension of the Company from listing on the London Stock Exchange. The Board, with its advisers, monitors the Company's regulatory obligations both on an ongoing basis and at quarterly Board meetings.

*Financial risk*
The financial situation of the Company is reviewed in detail at each Board meeting and monitored by the Audit Committee.

New developments in accounting standards and industry related issues are actively reported to and monitored by the Board and its advisers, ensuring that appropriate accounting policies are adhered to.

*Hedge accounting*
The Company has taken out an interest rate swap in order to minimise the cash flow interest rate risk that the Company is exposed to. The hedge has been accounted for as a cash flow hedge given that it is the use of a swap to change floating rate debt to fixed rate debt (as set out in Note 15 on page 43). As such the portion of the gain or loss on the hedge that is determined to be effective has been recognised directly in equity and the ineffective portion has been recognised in the Statement of Comprehensive Income.

*Banking*
A breach of the loan covenants may lead to funding being reduced or withdrawn. The Board monitors compliance with the loan covenants at each Board meeting and regularly reviews the loan and overdraft facilities, and the requirement for them, with the Investment Manager.

A more detailed explanation of the financial risks facing the Company is given in note 23 to the financial statements on pages 46 to 53.

*Social, environmental and employee issues*
The Company does not have any employees and the Board consists entirely of non-executive Directors. As the Company is an investment trust which invests in other companies, it has no direct impact on the community or the environment, and as such has no policies in this area.

*Current and future developments*
A review of the main features of the year is contained in the Chairman's report on pages 5 and 6 and the Investment Manager's report on pages 7 to 10.

The marketing and promotion of the Company will continue to involve the Board, led by the Investment Manager, with a proactive communications programme either directly or through its website, with existing and potential new shareholders and other external parties.

The Directors are seeking to renew the appropriate powers at the next Annual General Meeting ("AGM") to enable the issue and purchase of its own shares, when it is in shareholders' interests as a whole.

## Dividends paid

| | Payment date | **30 April 2011** pence | 30 April 2010 pence |
|---|---|---|---|
| First interim | 4 October 2010 | **1.30** | 1.25 |
| Second interim | 7 January 2011 | **1.30** | 1.25 |
| Third interim | 4 April 2011 | **1.30** | 1.25 |
| Fourth interim | 8 July 2011 | **2.30** | 2.25 |
| | | **6.20** | 6.00 |

The Directors have not recommended a final dividend in respect of the year ended 30 April 2011.

## Directors

The Directors who served during the year ended 30 April 2011 were as follows:

Lord Lamont
D Harris
B N Lenygon (deceased 25 November 2010)
W van Heesewijk
H Myles (appointed 15 March 2011)

None of the 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 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 from the Company to any Director at any time during the year or thereafter.

## Directors' beneficial and family interests

| | **30 April 2011 Ordinary shares** | 1 May 2010 Ordinary shares |
|---|---|---|
| Lord Lamont | **50,548** | 35,949 |
| D Harris | **5,802** | 5,802 |
| W van Heesewijk | **79,182** | 79,182 |
| H Myles* | **–** | – |

* Appointed 15 March 2011.

Voting rights in the Company consist of one vote for each Ordinary share.

### Substantial shareholdings

The Directors have been notified of the following substantial interests in the voting shares of the Company at 13 July 2011:

| **Ordinary shares** | Number of shares | % of voting rights |
|---|---|---|
| Philip J Milton & Company | 1,495,073 | 9.20 |
| Charles Stanley Group PLC | 1,476,175 | 9.08 |
| Henderson New Star | 1,410,497 | 8.68 |
| *New Star Higher Income Fund* | *910,497* | *5.60* |
| *New Star Maximum Income* | *500,000* | *3.08* |
| Jupiter Asset Management Limited | 1,016,000 | 6.25 |
| *Jupiter Monthly Income Fund Ltd* | *1,000,000* | *6.15* |
| *Jupiter PVT Clients* | *16,000* | *0.10* |
| Dartmoor Investment Trust Limited | 1,025,000 | 6.31 |
| Consistent Practical Investment Fund Limited | 875,000 | 5.38 |
| London & St Lawrence Investment Company PLC | 875,000 | 5.38 |
| Wise Investments | 819,338 | 5.04 |

### Special business at the Annual General Meeting

The Company's AGM will be held at 2.00pm on Friday, 23 September 2011. The Notice of meeting is set out on pages 55 to 58.

In addition to the ordinary business of the meeting, there are a number of items of special business, as follows:

### Authority to issue shares and disapply pre-emption rights

An Ordinary Resolution was passed at the last AGM held on 24 September 2010 giving Directors authority, pursuant to Section 551 of the Companies Act 2006, to allot Ordinary shares up to an aggregate nominal value equal to £1,354,166 (which figure represented one-third of the issued share capital of the Company). This authority expires at the conclusion of the next AGM. Although no shares have so far been issued under this authority, the Directors are seeking its renewal, pursuant to Section 551 of the Companies Act 2006, to allot up to an aggregate nominal value equal to £1,354,166, being one-third of the Ordinary shares in issue at the date of this report, as set out in Resolution 7 in the Notice of meeting. This authority will expire at the AGM to be held in 2012 or fifteen months from the passing of this resolution, whichever is earlier.

A Special Resolution was passed on 24 September 2010 giving the Directors power to issue Ordinary shares for cash notwithstanding the pre-emption provisions of the Companies Act 2006, permitting the Directors to issue a proportion of the shares under the authority given in Resolution 7 without being required to offer them to existing shareholders in proportion to their current holdings. This power expires at the conclusion of the next AGM and the Directors are seeking its renewal, pursuant to Sections 570 and 573 of the Companies Act 2006, to enable the Directors to issue up to 10% of the issued Ordinary share capital, representing 1,625,000 Ordinary shares at the date of this report, as set out in the Notice of meeting as Resolution 8. This authority will also cover the sale of shares held in Treasury, and will expire at the AGM to be held in 2012 or fifteen months from the passing of this resolution, whichever is earlier.

### Purchase of own shares

At the AGM held on 24 September 2010 the Directors were granted the authority to buy back in the market up to 14.99% of the Company's Ordinary shares in circulation at that date for cancellation or placing into Treasury. Resolution 9 as set out in the Notice of meeting will renew this authority for up to 14.99% of the current issued Ordinary share capital in circulation, which represents 2,435,875 Ordinary shares at the date of this report. The Directors do not intend to use the authority to purchase the Company's shares unless to do so would result in an increase in the net asset value per share for the remaining shareholders and would be in the interests of all shareholders. The authority, if given, will lapse at the AGM to be held in 2012 or eighteen months from the passing of this resolution, whichever is earlier.

The price paid for Ordinary shares will not be less than 10p and not more than the higher of (i) 5% above the average of the middle market quotations (as derived from the Daily Official List of the London Stock Exchange) of the Ordinary shares for the five business days immediately preceding the date on which the Ordinary share is purchased, and (ii) the higher of the price of the last independent trade and the current highest independent bid on the London Stock Exchange.

### Recommendation

The Board considers that the resolutions to be proposed at the AGM are in the best interests of shareholders and the Company and, accordingly, recommends that shareholders vote in favour of each resolution, as the Directors intend to do in respect of their own beneficial shareholdings.

### Management agreements

The Company's investments are managed by Chelverton under an agreement ('the Investment Management Agreement') dated 1 December 2005. The management fees are as follows:

a) a periodic fee payable quarterly in arrears at an annual rate of 1% of the value of the gross assets under management of the Company; and

b) a performance fee equal to any excess of the net asset value per share over the benchmark multiplied by the number of shares in issue, subject to certain conditions and capped at 1% of shareholders' funds.

The Investment Management Agreement may be terminated by twelve months written notice.

Under another agreement ('the Administration Agreement') dated 7 May 1999, company secretarial services and the general administration of the Company 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 six months written notice.

It is the Directors' opinion that the continuing appointment of the Investment Manager and the Secretary on the terms agreed is in the best interests of the Company and its shareholders. The Directors are satisfied that Chelverton has the required skill and expertise to continue to manage the Company's portfolio. There are no additional arrangements in place for compensation beyond the notice period.

# Report of the Directors (continued)

### 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 2011 (and at 30 April 2010) all suppliers' invoices received had been settled.

### Company information

The following information is disclosed in accordance with the Companies Act 2006.

- The Company's capital structure and voting rights are summarised on page 1.
- Details of the substantial shareholders in the Company are listed on page 15.
- The rules concerning the appointment and replacement of Directors are contained in the Company's Articles of Association and are discussed on page 20.
- Amendment of the Articles of Association and the giving of powers to issue or buy back the Company's shares require the relevant resolution to be passed by shareholders. The Board's current powers to issue or buy back shares and proposals for their renewal are detailed on pages 15 and 16.
- There are no restrictions concerning the transfer of securities in the Company; no special rights with regard to control attached to securities; no agreements between holders of securities regarding their transfer known to the Company; and no agreements which the Company is party to that might affect its control following a successful takeover bid.
- There are no agreements between the Company and its Directors concerning compensation for loss of office.

### ISAs

The current portfolio of the Company is such that its shares are eligible investments for inclusion in Individual Savings Accounts.

### 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 15 to the financial statements.

### Auditors

The Auditors, Hazlewoods LLP, have indicated their willingness to continue in office, and Resolution 6 proposing their re-appointment and authorising the Directors to determine 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 each 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

**Lord Lamont of Lerwick**
Chairman
*14 July 2011*

# 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 UK Corporate Governance Code ('the Governance Code')

The Directors have reviewed the detailed principles outlined in the Governance Code and confirm that, to the extent that they are relevant to the Company's business, they have complied with the provisions of the Governance Code throughout the year ended 30 April 2011 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 Governance Code.

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

As an investment trust, the Company has also taken into account the Code of Corporate Governance produced by the Association of Investment Companies ('the AIC Code'), which is intended as a framework of best practice specifically for AIC member companies.

The AIC Code, as explained by the AIC Guide, addresses all the principles set out in Section 1 of the Governance Code, and there are some areas where the AIC Code is more flexible than the Governance Code for investment trust companies. The Board has taken steps to adhere to its principles and follow the recommendations in the AIC Code where it believes they are appropriate.

A copy of the AIC Code and the AIC Guide can be obtained via the AIC website, www.theaic.co.uk, and a copy of the Governance Code can be obtained at www.frc.org.uk.

The Company has not complied with the following provisions of the Governance Code:

- Due to the size of the Board, formal performance evaluations of the Chairman, the Board and individual Directors are not undertaken. Instead it is felt more appropriate to address matters as and when they arise (Code provisions B.6, B.6.3).
- Due to the size of the Board, it is also felt inappropriate to appoint a senior independent non-executive director (A.4.1).
- 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 Governance Code is for fixed term renewable contracts (D.1.5).
- 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 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 have 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 Investment 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 Investment Manager ensures that Directors have timely access to all relevant management and financial information to enable informed decisions to be made and contacts 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 includes cover for legal expenses.

### Board membership

At the year end the Board consisted of four Directors, all of whom are non-executive. There are no 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. 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 four times a year, and additional meetings and telephone meetings are arranged as necessary. During the year to 30 April 2011 the Board met four times and all Directors were present at all Board Meetings.

### Chairman

The Chairman, Lord Lamont, is independent. He has shown himself to have sufficient time to commit to the Company's affairs. The Company does not have a chief executive officer, as it has no executive directors.

### 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 Governance 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.

Lord Lamont, Mr Harris and Mr Myles are deemed to be independent of the Investment Manager. Mr van Heesewijk is not independent by virtue of his employment with the Investment Manager. The majority of the Board, being three of the four Directors, is therefore independent. In accordance with the requirements of the Listing Rules Mr van Heesewijk is subject to annual re-election due to his connection with the Investment Manager.

In accordance with the terms of the Articles of Association, one-third of Directors will retire by rotation at the forthcoming AGM and no Director shall serve a term of more than three years before re-election. The Board has reviewed the appointment of those Directors retiring at the forthcoming Annual General Meeting prior to submission for their re-election. Consequently Lord Lamont will retire by rotation and stand for re-election and Mr van Heesewijk as a non-independent Director will also stand for re-election. The Board recommends that shareholders vote for Lord Lamont 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.

Mr Myles was appointed to the Board on 15 March 2011 and will stand for election at the AGM in accordance with the Company's Articles of Association. The Board recommends the election of Mr Myles as Resolution 5.

### 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 and incorporate the best practice recommendations and requirements of the Governance Code. The terms of reference can be inspected at the Registered Office.

### Audit Committee

The Audit Committee comprises the independent Directors, with Mr Harris as Chairman. The Committee met twice during the year ended 30 April 2011. Each Committee member was present. It is intended that the Committee will meet at least once a year, to approve the Company's Annual Report and Accounts.

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 scope and effectiveness of the audit process and to 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, Hazlewoods LLP, and representatives of Hazlewoods LLP attend the year end Audit Committee meeting. On the basis of this meeting 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 Committee has considered the independence and objectivity of the Auditors and has conducted a review of non-audit services which the Auditors have provided. It is satisfied in these respects that Hazlewoods LLP has fulfilled its obligations to the Company and its shareholders.

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 Myles as Chairman. The Committee meets as necessary 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.

The Management Engagement Committee met once during the year.

### Nominations Committee

The Nominations Committee comprises the independent Directors, with Mr Myles as Chairman, and has been formally constituted to assist the Board in making recommendations on all 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, as and when necessary, with regard to the criteria for future Board appointments, the methods of selection, 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 and ensuring that the present incumbents have sufficient time to undertake them.

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

The Nomination Committee met once during the year ended 30 April 2011.

### Remuneration Committee

The Remuneration Committee comprises the entire Board, and is chaired by Mr Myles. The Committee will meet as necessary to determine and approve Directors' fees, following proper consideration of the role 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 Listing Rule 15.6.6, the 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 Directors' remuneration report on pages 25 and 26 and in note 5 to the financial statements.

The Remuneration Committee did not meet during the year ended 30 April 2011.

### 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

The Company's business activities, together with the factors likely to affect its future development, performance and position are described in the Chairman's report on pages 5 and 6 and in the Investment Manager's report on pages 7 to 10. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the Report of the Directors on pages 11 to 17. In addition note 23 to the financial statements sets out the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk. The Company has adequate financial resources and no significant investment commitments and as a consequence, the Directors believe that the Company is well placed to manage its business risks successfully despite the economic outlook.

After making appropriate enquiries, the Directors have a reasonable expectation that the Company has adequate available financial resources to continue in operational existence for the foreseeable future and accordingly have concluded that it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

### Conflicts of interest

On 1 October 2008 it became a statutory requirement that a Director must avoid a situation in which he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the Company's interests (a 'situational conflict'). The Company's Articles of Association were amended at the AGM in 2008 to give the Directors authority to approve such situations, where appropriate.

It is the responsibility of each individual Director to avoid an unauthorised conflict situation arising. He must request authorisation from the Board as soon as he becomes aware of the possibility of a situational conflict arising.

The Board is responsible for considering Directors' requests for authorisation of situational conflicts and for deciding whether or not the situational conflict should be authorised. The factors to be considered will include whether the situational conflict could prevent the Director from properly performing his duties, whether it has, or could have, any impact on the Company and whether it could be regarded as likely to affect the judgement and/or actions of the Director in question. When the Board is deciding whether to authorise a conflict or potential conflict, only Directors who have no interest in the matter being considered are able to take the relevant decision, and in taking the decision the Directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. The Directors are able to impose limits or conditions when giving authorisation if they think this is appropriate in the circumstances.

A register of conflicts is maintained by the Company Secretary and is reviewed at Board meetings, to ensure that any authorised conflicts remain appropriate. Directors are required to confirm at these meetings whether there has been any change to their position.

### 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 supplied by the Financial Reporting Council: 'Internal Control: Revised Guidance for Directors on the Combined Code', 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 actions of the Investment 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 via the management engagement committee 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 provided by the Administrator 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, (trading as Capita Financial Group – Specialist Fund Services) 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 the statutory obligations of the Company are met.

### Dialogue with shareholders

Communication with shareholders is given a high priority by both the Board and the Investment 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 vote at the AGM, 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 AGM is invited to do so either on the reverse of the proxy card or in writing to the Company Secretary at the address given on page 60. The Company always responds to letters from individual shareholders.

The Annual and Half Yearly 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 available for downloading from the Investment Manager's website www.chelvertonam.com and on request from the Company Secretary on 01392 412122. Copies of the Annual Report are mailed to shareholders.

# Directors' remuneration report

The Board has prepared this report, in accordance with the requirements of Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. An Ordinary Resolution will be put to the members to approve the Report at the forthcoming AGM.

The law requires your Company's Auditors to audit certain disclosures provided. Where disclosures have been audited, they are indicated as such. The Auditors' opinion is included in their report on pages 28 and 29.

## Remuneration Committee

The Company has a Remuneration Committee comprising the whole Board, with Mr Myles as Chairman, which considers and approves Directors' remuneration.

## Policy on Directors' fees

The Board's policy is that the remuneration of non-executive Directors should reflect the experience of the Board as a whole, and is determined with reference to comparable organisations and appointments. It is intended that this policy will continue for the year ending 30 April 2012 and thereafter.

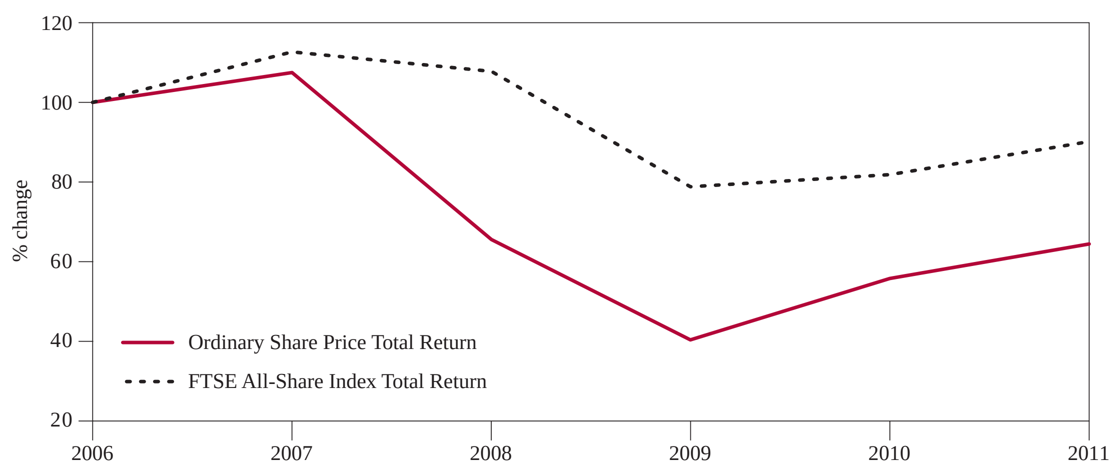
The fees of the non-executive Directors are determined within the limits set out in the Company's Articles of Association. Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits.

## Director's service contracts

None of the Directors has a contract of service with the Company, nor has there been any contract or arrangement between the Company and any Director at any time during the year. The terms of their appointment provide that a Director shall retire and be subject to re-election at the first Annual General Meeting after their appointment, and at least every three years after that.

## Your Company's performance

The graph below compares the total return (assuming all dividends are reinvested) to Ordinary shareholders, compared to the total shareholder return on a notional investment made up of shares of the same kinds and number as those by reference to which the FTSE All-Share Index is calculated. The FTSE All-Share Index has been selected as it is considered to represent a broad equity market index against which the performance of the Company's assets may be adequately assessed.



# Directors' remuneration report (continued)

### Directors' emoluments for the year (audited)

The Directors who served in the year received the following emoluments in the form of fees:

| | **2011** | 2010 |
|---|---|---|
| | **£** | £ |
| Lord Lamont (Chairman) | **20,000** | 20,000 |
| D Harris | **17,000** | 15,000 |
| H Myles (appointed 15 March 2011) | **2,000** | – |
| B N Lenygon (deceased 25 November 2010) | **11,000** | 20,000 |
| W van Heesewijk* | **–** | – |

* Mr van Heesewijk has waived his entitlement to fees.

### Approval

The Directors' remuneration report on pages 25 and 26 was approved by the Board on 14 July 2011.

**Lord Lamont of Lerwick**
Chairman

# Statement of Directors' responsibilities

in respect of the Annual Report and the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements. The Directors have elected to prepare financial statements in accordance with International Financial Reporting Standards as adopted by the EU (IFRSs). Company law requires the Directors to prepare such financial statements in accordance with IFRSs and the Companies Act 2006.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effect of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information, and
- provide additional disclosures when compliance and the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Report of the Directors and Directors' remuneration report which comply with the requirements of the Companies Act 2006.

The Directors are responsible for the integrity of the information relating to the Company on the Investment Manager's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

On behalf of the Board of Directors

**Lord Lamont of Lerwick**
Chairman
*14 July 2011*

# Independent Auditors' report

to the members of Small Companies Dividend Trust PLC

We have audited the financial statements of the Small Companies Dividend Trust PLC for the year ended 30 April 2011 which comprise the Statement of Comprehensive Income, the Statement of Changes in Net Equity, the Balance Sheet, the Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with chapter 3 of part 16 of the Companies Act 2006. 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 audit 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 auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 27, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards required us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report of the Directors to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 April 2011 and of its net return and comprehensive income for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

# Independent Auditors' report (continued)

to the members of Small Companies Dividend Trust PLC

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 22, in relation to going concern;
- the part of the statement on corporate governance relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to the shareholders by the Board of Directors' remuneration.

**David Main (Senior Statutory Auditor)**,
For and on behalf of Hazlewoods LLP, Statutory Auditor
Cheltenham
*14 July 2011*

# Statement of comprehensive income

for the year ended 30 April 2011

| | Note | 2011 Revenue £'000 | 2011 Capital £'000 | 2011 Total £'000 | 2010 Revenue £'000 | 2010 Capital £'000 | 2010 Total £'000 |
|---|---|---|---|---|---|---|---|
| **Investments** | | | | | | | |
| Profits on investments | 10 | **–** | **2,818** | **2,818** | – | 5,685 | 5,685 |
| **Investment income** | 2 | **1,187** | **–** | **1,187** | 1,012 | – | 1,012 |
| **Expenses** | | | | | | | |
| Investment management fee | 3 | **(54)** | **(162)** | **(216)** | (45) | (134) | (179) |
| Recovery of VAT on investment management fee | 3 | **–** | **–** | **–** | 49 | 74 | 123 |
| Other expenses | 4 | **(181)** | **–** | **(181)** | (180) | – | (180) |
| Recovery of loss in former subsidiary company | | **–** | **–** | **–** | – | 6 | 6 |
| | | **(235)** | **(162)** | **(397)** | (176) | (54) | (230) |
| **Net return before finance costs and taxation** | | **952** | **2,656** | **3,608** | 836 | 5,631 | 6,467 |
| **Finance costs** | 6 | **(77)** | **(232)** | **(309)** | (80) | (241) | (321) |
| **Net return before taxation** | | **875** | **2,424** | **3,299** | 756 | 5,390 | 6,146 |
| **Taxation** | 7 | **–** | **–** | **–** | (5) | – | (5) |
| **Net return after taxation** | | **875** | **2,424** | **3,299** | 751 | 5,390 | 6,141 |
| **Other comprehensive income** | | | | | | | |
| Movement in fair value of cash flow hedge | | | | **156** | | | 90 |
| **Total comprehensive income for the year** | | | | **3,455** | | | 6,231 |

| | Note | 2011 Revenue pence | 2011 Capital pence | 2011 Total pence | 2010 Revenue pence | 2010 Capital pence | 2010 Total pence |
|---|---|---|---|---|---|---|---|
| **Net return per:** | | | | | | | |
| Ordinary share | 8 | **5.38** | **14.92** | **20.30** | 4.62 | 33.17 | 37.79 |

The total column of this statement is the Statement of Comprehensive Income of the Company, prepared in accordance with International Financial Reporting Standards ('IFRS'), as adopted by the EU.

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

The notes on pages 34 to 53 form part of these financial statements.

# Statement of changes in net equity

for the year ended 30 April 2011

| | Note | Share capital £'000 | Share premium account £'000 | Capital reserve £'000 | Hedge reserve £'000 | Revenue reserve £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| **Year ended 30 April 2011** | | | | | | | |
| 30 April 2010 | | **4,063** | **11,917** | **(1,322)** | **(413)** | **1,507** | **15,752** |
| Total comprehensive income for the year | | **–** | **–** | **2,424** | **156** | **875** | **3,455** |
| Transactions with owners: | | | | | | | |
| Dividends paid | 9 | **–** | **–** | **–** | **–** | **(999)** | **(999)** |
| 30 April 2011 | | **4,063** | **11,917** | **1,102** | **(257)** | **1,383** | **18,208** |
| **Year ended 30 April 2010** | | | | | | | |
| 30 April 2009 | | 4,063 | 11,917 | (6,712) | (503) | 1,641 | 10,406 |
| Total comprehensive income for the year | | – | – | 5,390 | 90 | 751 | 6,231 |
| Transactions with owners: | | | | | | | |
| Dividends paid | 9 | – | – | – | – | (885) | (885) |
| 30 April 2010 | | 4,063 | 11,917 | (1,322) | (413) | 1,507 | 15,752 |

The notes on pages 34 to 53 form part of these financial statements.

# Balance sheet

as at 30 April 2011

| | Note | 2011 £'000 | 2010 £'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Fair value through profit or loss investments | 10 | **22,689** | 19,479 |
| **Current assets** | | | |
| Trade and other receivables | 12 | **275** | 540 |
| Cash and cash equivalents | | **1** | 358 |
| | | **276** | 898 |
| **Total assets** | | **22,965** | 20,377 |
| **Current liabilities** | | | |
| Bank overdraft | | **(248)** | – |
| Trade and other payables | 13 | **(188)** | (109) |
| | | **(436)** | (109) |
| **Total assets less current liabilities** | | **22,529** | 20,268 |
| **Non-current liabilities** | | | |
| Bank loan | 14 | **(4,000)** | (4,000) |
| Derivative financial instruments | 15 | **(321)** | (516) |
| | | **(4,321)** | (4,516) |
| **Total liabilities** | | **(4,757)** | (4,625) |
| **Net assets** | | **18,208** | 15,752 |
| Represented by: | | | |
| Share capital | 16 | **4,063** | 4,063 |
| Share premium account | 17 | **11,917** | 11,917 |
| Capital reserve | 17 | **1,102** | (1,322) |
| Hedge reserve | 17 | **(257)** | (413) |
| Revenue reserve | 17 | **1,383** | 1,507 |
| **Issued capital and reserves** | | **18,208** | 15,752 |

The notes on pages 34 to 53 form part of these financial statements.

These financial statements were approved by the Board and authorised for issue on 14 July 2011.

**Lord Lamont of Lerwick**, Chairman

# Statement of cash flows

for the year ended 30 April 2011

| | Note | **2011** **£'000** | 2010 £'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Investment income received | | **1,195** | 1,030 |
| Bank deposit interest received | | **–** | 16 |
| Investment management fee paid | | **(210)** | (166) |
| Administration and secretarial fees paid | | **(60)** | (47) |
| Refund of VAT paid on Investment Management fees | | **–** | 312 |
| Other cash payments | | **(125)** | (125) |
| **Cash generated from operations** | | **800** | 1,020 |
| Loan interest paid | | **(346)** | (342) |
| **Net cash inflow from operating activities** | 19 | **454** | 678 |
| **Investing activities** | | | |
| Purchases of investments | | **(4,295)** | (4,303) |
| Sales of investments | | **4,235** | 4,550 |
| **Net cash (outflow)/inflow from investing activities** | | **(60)** | 247 |
| **Financing activities** | | | |
| Dividends paid | | **(999)** | (885) |
| **Net cash outflow from financing activities** | | **(999)** | (885) |
| **(Decrease)/increase in cash and cash equivalents for year** | 20 | **(605)** | 40 |
| **Cash and cash equivalents at start of year** | 21 | **358** | 318 |
| **Cash and cash equivalents at end of year** | 21 | **(247)** | 358 |
| **Cash and cash equivalents at 30 April comprise:** | | | |
| Cash at bank | | **1** | 358 |
| Bank overdraft | | **(248)** | – |
| | | **(247)** | 358 |

These financial statements have been prepared under IFRS.

The notes on pages 34 to 53 form part of these financial statements.

# Notes to the financial statements

as at 30 April 2011

## 1 ACCOUNTING POLICIES

Small Companies Dividend Trust PLC is a Company domiciled in the United Kingdom.

### Basis of preparation

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) and 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.

At the date of authorisation of these financial statements the following Standards and Interpretations which are relevant to the annual financial statements and have not been applied in these financial statements were in issue but not yet effective until accounting periods commencing on or after the below dates:

- IFRS 3 (revised), 'Business combinations' (effective 1 July 2010).
- IFRS 9 'Financial Instruments' (effective 1 January 2013).
- IFRS 13 'Fair Value Measurements' (effective 1 January 2013).
- IAS 24 (revised 2009) 'Related Party Disclosures' (effective 1 January 2011).
- IAS 28 (amendment), 'Investments in Associates' (effective for periods beginning on or after 1 January 2011).
- IFRIC 14 (amendment), Prepayments of a Minimum Funding.

The Directors anticipate that the adoption of these Standards and Interpretations will have no material impact on the Company when the relevant standards come into effect.

### 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 and interest rate swaps taken out as cash flow hedges. Where presentational guidance set out in the Statement of Recommended Practice regarding the Financial Statements of Investment Trust Companies and Venture Capital Trusts ('SORP'), issued in January 2009, 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.

### Segmental reporting

The Directors are of the opinion that the Company is engaged in a single segment of business, being investment business. The Company only invests in companies listed in the United Kingdom.

### 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.

### 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 Statement of Comprehensive Income 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 and SETS at last trade price at the close of business on the Balance Sheet date, without adjustment for transaction costs necessary to realise the asset.

#### Derivative financial instruments and hedge accounting

It is the Company's policy not to trade in derivative financial instruments. However, the Company has utilised interest rate swaps as cash flow hedges to mitigate its exposure to interest rate changes on its bank loan which is subject to a variable rate of interest. As at 30 April 2011 the Company had one interest rate swap in place, details can be found in note 15.

All derivatives are recognised at their fair value. The method of recognising movements in the fair value of derivatives depends on whether they are designated as hedging instruments and, if so, the nature of the item being hedged. Derivatives are only designated as hedges provided certain strict criteria are met. At the inception of a hedge its terms must be clearly documented and there must be an expectation that the derivative will be highly effective in offsetting changes in the cash flow of the hedged risk. The effectiveness of the hedging relationship is tested throughout its life and if at any point it is concluded that it is no longer highly effective the hedge relationship is terminated.

The effective portion of changes in the fair value of derivatives that are designated as cash flow hedges (being the interest rate swaps) is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

#### 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 Statement of Comprehensive Income except as follows:

- expenses which are incidental to the acquisition of an investment are included within the costs of the investment;

### 1 ACCOUNTING POLICIES (continued)

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

The Company's investment management fees, bank interest and all other expenses are allocated to revenue with the exception of 75% (2010: 75%) of the Investment Manager's fee, 75% (2010: 75%) of bank and loan interest and 100% of the provision for the Investment Manager's performance fee, all of which are allocated to capital. In respect of the investment management fee, bank and loan interest allocation to revenue and capital this is in line with the Board's expected long term split of returns, in the form of income and capital gains respectively, from the investment portfolio of the Company.

#### 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. Bank overdrafts that are repayable on demand which form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the Statement of Cash Flows.

#### Bank loans and borrowings

All bank loans and borrowings are initially recognised at cost, being the fair value of the consideration received, less issue costs where applicable. After initial recognition, all interest-bearing loans and borrowings are subsequently measured at amortised cost. Any difference between cost and redemption value is recognised in the Statement of Comprehensive Income over the period of the borrowings on an effective interest basis.

#### Taxation

There is no charge to United Kingdom 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. Deferred tax is not provided on capital gains and losses because the Company meets the conditions for approval as an Investment Trust Company.

#### Dividends payable to shareholders

Dividends to shareholders are recognised as a liability in the period in which they are paid or approved in general meetings and are taken to the Statement of Changes in Net Equity. Dividends declared and approved by the Company after the Balance Sheet date have not been recognised as a liability of the Company at the Balance Sheet date.

## 2 INCOME

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| **Income from listed investments** | | |
| UK net dividend income | **974** | 925 |
| Unfranked foreign dividend income | **214** | 68 |
| | **1,188** | 993 |
| **Other income** | | |
| Interest on VAT refund | **–** | 16 |
| Exchange (losses)/gains | **(1)** | 3 |
| **Total income** | **1,187** | 1,012 |
| **Total income comprises:** | | |
| Dividends | **1,188** | 993 |
| Interest | **–** | 16 |
| Other | **(1)** | 3 |
| | **1,187** | 1,012 |

## 3 INVESTMENT MANAGEMENT FEE

| | **2011** | | | 2010 | | |
|---|---|---|---|---|---|---|
| | **Revenue £'000** | **Capital £'000** | **Total £'000** | Revenue £'000 | Capital £'000 | Total £'000 |
| Investment management fee | **54** | **162** | **216** | 45 | 134 | 179 |
| Refund of VAT on prior year investment management fees | **–** | **–** | **–** | (49) | (74) | (123) |
| | **54** | **162** | **216** | (4) | 60 | 56 |

At 30 April 2011 there were amounts outstanding of £57,000 (2010: £51,000).

A performance fee was not payable for the year ended 30 April 2011 nor for the year ended 30 April 2010.

Following the AIC/Claverhouse judgement in 2007 regarding the charging of VAT on investment management fees, the Company has received £497,000 which was recognised in the financial statements for the years ended 30 April 2009 and 30 April 2010.

# Notes to the financial statements (continued)

as at 30 April 2011

## 4 OTHER EXPENSES

| | **2011** | 2010 |
|---|---|---|
| | **£'000** | £'000 |
| Administrative and secretarial fee | **55** | 52 |
| Directors' remuneration | **50** | 55 |
| Auditors' remuneration: | | |
| audit services* | **16** | 16 |
| non audit services* | **–** | – |
| Insurance | **11** | 11 |
| Other expenses* | **49** | 46 |
| | **181** | 180 |

* The above amounts include irrecoverable VAT where applicable.

## 5 DIRECTORS' REMUNERATION

| | **2011** | 2010 |
|---|---|---|
| | **£** | £ |
| **Total fees** | **50,000** | 55,000 |
| **Remuneration to Directors** | | |
| Lord Lamont (Chairman) | **20,000** | 20,000 |
| D Harris | **17,000** | 15,000 |
| H Myles (appointed 15 March 2011) | **2,000** | – |
| B N Lenygon (deceased 25 November 2010) | **11,000** | 20,000 |
| W van Heesewijk* | **–** | – |

* Mr van Heesewijk has waived his entitlement to fees.

## 6 FINANCE COSTS

| | **2011** | | | 2010 | | |
|---|---|---|---|---|---|---|
| | **Revenue** | **Capital** | **Total** | Revenue | Capital | Total |
| | **£'000** | **£'000** | **£'000** | £'000 | £'000 | £'000 |
| Bank interest payable on bank overdraft and bank loan | **87** | **261** | **348** | 86 | 258 | 344 |
| Movement in fair value of ineffective element of interest rate swap | **(10)** | **(29)** | **(39)** | (6) | (17) | (23) |
| | **77** | **232** | **309** | 80 | 241 | 321 |

## 7 TAXATION

| | 2011<br>£'000 | 2010<br>£'000 |
|---|---|---|
| **Based on the revenue return for the year** | | |
| Current tax – withholding tax on foreign dividend income | – | 5 |

The current tax charge for the year is lower than the standard rate of corporation tax in the UK of 28% to 31 March 2011 and 26% from 1 April 2011 (2010: 28%). The differences are explained below:

| | 2011 Revenue<br>£'000 | 2011 Capital<br>£'000 | 2011 Total<br>£'000 | 2010 Revenue<br>£'000 | 2010 Capital<br>£'000 | 2010 Total<br>£'000 |
|---|---|---|---|---|---|---|
| **Revenue on ordinary activities before taxation** | **875** | **2,424** | **3,299** | 756 | 5,390 | 6,146 |
| Theoretical corporation tax at 27.82% (2010: 28%) | **244** | **674** | **918** | 212 | 1,509 | 1,721 |
| Effects of: | | | | | | |
| Capital items not taxable | **–** | **(784)** | **(784)** | – | (1,592) | (1,592) |
| UK and foreign dividends which are not taxable in the UK | **(330)** | **–** | **(330)** | (269) | – | (269) |
| Excess expenses in the year | **86** | **110** | **196** | 57 | 83 | 140 |
| Withholding tax suffered on foreign dividend income | **–** | **–** | **–** | 5 | – | 5 |
| Actual current tax charged to the revenue account | **–** | **–** | **–** | 5 | – | 5 |

The Company has unrelieved excess expenses of £16,831,000 (2010: £16,125,000). 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.

## 8 RETURN PER SHARE

### Ordinary shares

Revenue return per Ordinary share is based on the net revenue on ordinary activities after taxation of £875,000 (2010: £751,000) and on 16,250,000 (2010: 16,250,000) Ordinary shares, being the weighted average number of Ordinary shares in issue during the year.

Capital return per Ordinary share is based on capital profit of £2,424,000 (2010: £5,390,000) and on 16,250,000 (2010: 16,250,000) Ordinary shares, being the weighted average number of Ordinary shares in issue during the year.

# Notes to the financial statements (continued)

as at 30 April 2011

## 9 DIVIDENDS

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| **Declared and paid per Ordinary share** | | |
| Fourth interim dividend for the year ended 30 April 2010 of 2.25p (2009: 1.7p) | **366** | 276 |
| First interim dividend paid of 1.30p (2010: 1.25p) | **211** | 203 |
| Second interim dividend paid of 1.30p (2010: 1.25p) | **211** | 203 |
| Third interim dividend paid of 1.30p (2010: 1.25p) | **211** | 203 |
| | **999** | 885 |
| **Declared per Ordinary share** | | |
| Declared fourth interim dividend for the year ended 30 April 2011 of 2.30p (2010: 2.25p) | **374** | 366 |

## 10 INVESTMENTS

| **Year ended 30 April 2011** | **Listed £'000** | **AIM £'000** | **Unlisted £'000** | **2011 Total £'000** |
|---|---|---|---|---|
| Opening book cost | **17,343** | **10,107** | **2,369** | **29,819** |
| Opening investment holding losses | **(4,189)** | **(3,782)** | **(2,369)** | **(10,340)** |
| Opening valuation | **13,154** | **6,325** | **–** | **19,479** |
| Movements in the year: | | | | |
| Purchases at cost | **2,801** | **1,563** | **–** | **4,364** |
| Disposals: | | | | |
| Proceeds | **(2,603)** | **(1,333)** | **(36)** | **(3,972)** |
| Net realised losses on disposals | **(1,946)** | **(599)** | **(2,333)** | **(4,878)** |
| Transfers from AIM to Listed | **234** | **(234)** | **–** | **–** |
| Movement in investment holding losses | **3,470** | **1,857** | **2,369** | **7,696** |
| Closing valuation | **15,110** | **7,579** | **–** | **22,689** |
| Closing book cost | **15,829** | **9,504** | **–** | **25,333** |
| Closing investment holding losses | **(719)** | **(1,925)** | **–** | **(2,644)** |
| | **15,110** | **7,579** | **–** | **22,689** |
| Realised losses on disposals | **(1,946)** | **(599)** | **(2,333)** | **(4,878)** |
| Movement in fair value of investments | **3,470** | **1,857** | **2,369** | **7,696** |
| Profits on investments | **1,524** | **1,258** | **36** | **2,818** |

## Notes to the financial statements (continued)

as at 30 April 2011

### 10 INVESTMENTS (continued)

| Year ended 30 April 2010 | Listed £'000 | AIM £'000 | Unlisted £'000 | 2010 Total £'000 |
|---|---|---|---|---|
| Opening book cost | 21,306 | 11,135 | 101 | 32,542 |
| Opening investment holding losses | (11,725) | (6,347) | (101) | (18,173) |
| Opening valuation | 9,581 | 4,788 | – | 14,369 |
| Movements in the year: | | | | |
| Purchases at cost | 3,513 | 790 | – | 4,303 |
| Disposals: | | | | |
| Proceeds | (3,294) | (1,584) | – | (4,878) |
| Net realised losses on disposals | (1,115) | (1,033) | – | (2,148) |
| Transfers from Listed to AIM | (932) | 932 | – | – |
| Delisted in year | (2,135) | (133) | 2,268 | – |
| Movement in investment holding losses | 7,536 | 2,565 | (2,268) | 7,833 |
| Closing valuation | 13,154 | 6,325 | – | 19,479 |
| Closing book cost | 17,343 | 10,107 | 2,369 | 29,819 |
| Closing investment holding losses | (4,189) | (3,782) | (2,369) | (10,340) |
| | 13,154 | 6,325 | – | 19,479 |
| Realised losses on disposals | (1,115) | (1,033) | – | (2,148) |
| Movement in fair value of investments | 7,536 | 2,565 | (2,268) | 7,833 |
| Profits/(losses) on investments | 6,421 | 1,532 | (2,268) | 5,685 |

**Transaction costs**

During the year the Company incurred transaction costs of £39,000 (2010: £35,000) and £17,000 (2010: £21,000) on purchases and sales of investments respectively. These amounts are included in profits on investments, as disclosed in the Statement of Comprehensive Income.

## 11 SIGNIFICANT INTERESTS

The Company has a holding of 3% or more in the following investments:

| | | 30 April 2011 |
|---|---|---|
| Name of undertaking | Class of share | % held |
| RTC Group | Ordinary | 5.21 |
| Sanderson Group | Ordinary | 4.61 |
| Victoria | Ordinary | 3.96 |
| Sinclair (William) Holdings | Ordinary | 3.67 |
| Stadium Group | Ordinary | 3.08 |
| Macfarlane Group | Ordinary | 3.04 |

## 12 TRADE AND OTHER RECEIVABLES

| | **2011** | 2010 |
|---|---|---|
| | **£'000** | £'000 |
| Sales of investments for future settlement | **65** | 328 |
| Dividends receivable | **202** | 210 |
| Prepayments and accrued income | **8** | 2 |
| | **275** | 540 |

## 13 TRADE AND OTHER PAYABLES

| | **2011** | 2010 |
|---|---|---|
| | **£'000** | £'000 |
| Purchases of investments for future settlement | **69** | – |
| Trade and other payables | **119** | 109 |
| | **188** | 109 |

## 14 BANK LOAN

| | **2011** | 2010 |
|---|---|---|
| | **£'000** | £'000 |
| Bank loan | **4,000** | 4,000 |

The bank loan is secured by a first legal charge over the Company's investment portfolio.

The loan is repayable on 1 May 2014.

## Notes to the financial statements (continued)
as at 30 April 2011

### 15 DERIVATIVE FINANCIAL INSTRUMENTS

An interest rate swap is an agreement between two parties to exchange fixed and floating interest payments based upon interest rates defined in the contract without the exchange of the underlying principal amounts. In each case noted below the Company has swapped its obligation to pay variable rates of interest for a fixed rate. Following the reduction of the loan drawn, there was a mismatch with the two swap transactions. The remaining £4 million loan is only 80% of the remaining £5 million swap. Therefore 20% of the cost of the swap is charged to income with the remaining 80% to equity. The fair value at the end of the financial year of the interest rate swap designated as a cash flow hedge, calculated based on the value of entering into an equivalent swap at the 30 April 2011, was estimated as follows:

| | **2011** | 2010 |
|---|---|---|
| | **£'000** | £'000 |
| £5,000,000 fixed at 6.2475% for floating interest rate swap expiring 10 July 2012 | **321** | 516 |

### 16 SHARE CAPITAL

| | **2011** | 2010 |
|---|---|---|
| | **£'000** | £'000 |
| **Issued, allotted and fully paid** | | |
| 16,250,000 (2010: 16,250,000) Ordinary shares of 25p each | **4,063** | 4,063 |

The rights attaching to the Ordinary shares are:

**As to dividends each year**

Ordinary shares are entitled to all the revenue profits of the Company available for distribution, including all undistributed income.

**As to capital on winding-up**

On a winding-up, 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 of the Company pro-rota according to the amounts paid or credited as paid up on the Ordinary shares held by them respectively.

## 16 SHARE CAPITAL (continued)

### Duration

The Directors shall convene an extraordinary general meeting of the Company to be held on 30 April 2014, or if that is not a business day, on the immediately preceding business day ('the First EGM'), at which an Ordinary resolution will be proposed to the effect that the Company continues in existence ('the Continuation Resolution'). In the event that such resolution is not passed the Directors shall, subject to the Statutes, put forward further proposals to shareholders regarding the future of the Company (which may include the voluntary liquidation, unitisation or other reorganisation of the Company) ('Restructuring Resolution') at an extraordinary general meeting of the Company to be convened not more than four months after the date of the First EGM (or such adjournment).

The Restructuring Resolution shall be proposed as a Special Resolution. If the Restructuring Resolution is either not proposed or not passed then the Directors shall convene an extraordinary general meeting not more than four months after the date of the First EGM (or such adjournment) if the Restructuring Resolution is not proposed or four months after the date the Restructuring Resolution is not passed, an Ordinary Resolution pursuant to section 84 of the Insolvency Act 1986 to voluntarily wind-up the Company shall be put to shareholders at this extraordinary general meeting and the votes taken on such resolution shall be on a poll.

## 17 RESERVES

| | Share premium account £'000 | Capital reserve £'000 | Hedge reserve £'000 | Revenue reserve £'000 |
|---|---|---|---|---|
| At 1 May 2010 | **11,917** | **(1,322)** | **(413)** | **1,507** |
| Net losses on realisation of investments | **–** | **(4,878)** | **–** | **–** |
| Movement in fair value | **–** | **7,696** | **–** | **–** |
| Costs charged to capital | **–** | **(394)** | **–** | **–** |
| Net deficit after dividends for the year retained | **–** | **–** | **–** | **(124)** |
| Movement in fair value of cash flow hedge | **–** | **–** | **156** | **–** |
| At 30 April 2011 | **11,917** | **1,102** | **(257)** | **1,383** |
| At 1 May 2009 | 11,917 | (6,712) | (503) | 1,641 |
| Net losses on realisation of investments | – | (2,148) | – | – |
| Movement in fair value | – | 7,833 | – | – |
| Costs charged to capital | – | (295) | – | – |
| Net deficit after dividends for the year retained | – | – | – | (134) |
| Movement in fair value of cash flow hedge | – | – | 90 | – |
| At 30 April 2010 | 11,917 | (1,322) | (413) | 1,507 |

## 18 NET ASSET VALUE PER SHARE

The net asset value per share and the net assets attributable to the Ordinary shareholders at the year end are calculated in accordance with the Articles of Association and are as follows:

| | **Net asset value per share 2011 pence** | **Net assets attributable to shareholders 2011 £'000** | Net asset value per share 2010 pence | Net assets attributable to shareholders 2010 £'000 |
|---|---|---|---|---|
| Ordinary shares | **112.05** | **18,208** | 96.94 | 15,752 |

The net asset value per share is calculated on 16,250,000 (2010: 16,250,000) Ordinary shares, being the number of Ordinary shares in issue at the year end.

## 19 RECONCILIATION OF NET RETURN BEFORE AND AFTER TAXATION TO NET CASH FLOW FROM OPERATING ACTIVITIES

| | **2011 £'000** | 2010 £'000 |
|---|---|---|
| Net return before taxation | **3,299** | 6,146 |
| Taxation | **–** | (5) |
| Net return after taxation | **3,299** | 6,141 |
| Net capital return | **(2,424)** | (5,390) |
| Movement in fair value of ineffective element of interest rate swap | **(39)** | (23) |
| Decrease in receivables | **2** | 228 |
| Increase in payables | **10** | 17 |
| Interest and expenses charged to the capital reserve | **(394)** | (295) |
| Net cash inflow from operating activities | **454** | 678 |

## 20 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

| | **2011 £'000** | 2010 £'000 |
|---|---|---|
| (Decrease)/increase in cash in year | **(605)** | 40 |
| Change in net debt | **(605)** | 40 |
| Net debt at 1 May 2010 | **(3,642)** | (3,682) |
| Net debt at 30 April 2011 | **(4,247)** | (3,642) |

## 21 ANALYSIS OF CHANGES IN NET DEBT

| | At 1 May 2010 £'000 | Cash flows £'000 | **At 30 April 2011 £'000** |
|---|---|---|---|
| Cash at bank | 358 | (357) | **1** |
| Bank overdraft | – | (248) | **(248)** |
| | 358 | (605) | **(247)** |
| Debt due after more than one year | (4,000) | – | **(4,000)** |
| | (3,642) | (605) | **(4,247)** |

## 22 RELATED PARTY TRANSACTIONS

Under the terms of agreement dated 1 December 2005, the Company has appointed Chelverton to be Investment Manager. The fee arrangements for these services and fees payable are set out in the Report of the Directors on page 16 and in note 3 to the accounts.

## 23 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES

### Objectives, policies and strategies

The Company primarily invests in companies with a market capitalisation of up to £500 million. The majority of investments comprise ordinary shares in companies listed on the Official List and companies admitted to AIM.

A bank loan of £4 million was in place as at 30 April 2011 (2010: £4 million). These facilities are used for investment purposes and to aid settlement and finance placings until other investments have been reduced.

An overdraft facility was in place as at 30 April 2011 (2010: nil). This facility is used for short term liquidity. Details can be found on page 48.

The Company finances its operations through bank borrowings and equity.

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.

Details of the Company's interest rate swap can be found in note 15. The purpose of this swap is to fix the interest level over a certain period and reduce cash flow volatility on the bank loan.

## 23 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES (continued)

### Objectives, policies and strategies (continued)

In pursuing its investment objective, the Company is exposed to a variety of risks that could result in either a reduction in the Company's net assets or a reduction of the profits available for distribution. These risks are market risk (comprising currency risk, interest rate risk, and other price risk), credit risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

As required by IFRS 7: Financial Instruments: Disclosures, an analysis of financial assets and liabilities, which identifies the risk to the Company of holding such items, is given below.

### Market risk

Market risk arises mainly from uncertainty about future prices of financial instruments used in the Company's business. It represents the potential loss the Company might suffer through holding market positions by way of price movements and movements in exchange rates and interest rates. The Investment Manager assesses the exposure to market risk when making each investment decision and these risks are monitored by the Investment Manager on a regular basis and the Board at quarterly meetings with the Investment Manager.

### Market price risk

Market price risks (i.e. changes in market prices other than those arising from currency risk or interest rate risk) may affect the value of investments.

The Board manages the risks inherent in the investment portfolios by ensuring full and timely report of relevant information from the Investment Manager. Investment performance is reviewed at each Board meeting.

The Company's exposure to other changes in market prices at 30 April on its investments is as follows:

| | **2011** | 2010 |
|---|---|---|
| | **£'000** | £'000 |
| Fair value through profit or loss investments | **22,689** | 19,479 |

### Sensitivity analysis

A 10% increase in the market value of investments at 30 April 2011 would have increased net assets attributable to shareholders by £2,269,000 (2010: £1,948,000). An equal change in the opposite direction would have decreased the net assets available to shareholders by an equal but opposite amount.

### Foreign currency risk

All the Company's assets are denominated in Sterling and accordingly the only currency exposure the Company has is through the trading activities of its investee companies.

### Interest rate risk

Interest rate movements may affect the level of income receivable on cash deposits and the interest payable on the Company's variable rate borrowings.

The majority of the Company's financial assets are non-interest bearing. As a result the Company's financial assets are not subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates.

# Notes to the financial statements (continued)

as at 30 April 2011

## 23 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES (continued)

### Interest rate risk (continued)

The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment decisions and borrowing under the loan facility.

The Company is exposed to interest rate risk on its variable rate loan and on its overdraft facility. The Company has mitigated its exposure to cash flow variations arising from changes in interest rates by taking out an interest rate swap as described in note 15. As at 30 April 2011, there is a £5 million swap expiring 10 July 2012. The Company settles the difference between fixed and variable rate on a quarterly basis. Changes in interest rates will however affect the fair value of these derivative instruments. The fair value is determined by obtaining a quotation from the Company's bank of the cost or benefit of closing the contract.

The exposure at 30 April of financial assets and financial liabilities to interest rate risk is as follows:

| | Within one year £'000 | More than one year £'000 | Total £'000 |
|---|---|---|---|
| **30 April 2011** | | | |
| Cash and cash equivalents and bank overdraft | **(247)** | **–** | **(247)** |
| Bank loan | **–** | **(4,000)** | **(4,000)** |
| Total exposure to interest rates | **(247)** | **(4,000)** | **(4,247)** |
| **30 April 2010** | | | |
| Cash and cash equivalents | 358 | – | 358 |
| Bank loan | – | (4,000) | (4,000) |
| Total exposure to interest rates | 358 | (4,000) | (3,642) |

A loan facility of £4 million was in place at 30 April 2011, repayable on 1 May 2014. Bank borrowings under this facility amounted to £4 million at 30 April 2011 (2010: £4 million), and incur interest at a rate of 1% above LIBOR.

On 3 February 2011 the Company entered in to an uncommitted multi-currency overdraft facility agreement with HSBC Bank plc. The bank makes available an aggregate amount equal to the lesser of:

(i) £2,000,000; and

(ii) 10% of custody assets from time to time.

The purpose of the facility is for short term liquidity and has no fixed term but is subject to review from time to time, at least on an annual basis. Interest is payable monthly in arrears on the amount of the facility outstanding at the rate of 1.75% above the applicable base rate. In addition a fee of £10,000 per annum is payable on each anniversary date.

## 23 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES (continued)

### Sensitivity analysis

The Directors believe that at 30 April 2011 the interest rate swap completely mitigates any cash flow risk through increases in interest rates, though the fair value of the interest rate swap instruments will vary with changes in interest rates.

### Credit risk

Credit risk is the risk of financial loss to the Company if the contractual party to a financial instrument fails to meet its contractual obligations.

The carrying amounts of financial assets best represent the maximum credit risk exposure at the Balance sheet date.

The Company's listed investments are held on its behalf by HSBC Global Services acting as the Company's custodian. Bankruptcy or insolvency of the custodian may cause the Company's rights with respect to securities held by the custodian to be delayed. The Board monitors the Company's risk by reviewing the custodian's internal controls reports.

Investment transactions are carried out with a number of brokers whose creditworthiness is reviewed by the Investment Manager. Transactions are ordinarily undertaken on a delivery versus payment basis whereby the Company's custodian bank ensures that the counterparty to any transaction entered into by the Company has delivered in its obligations before any transfer of cash or securities away from the Company is completed.

Cash is only held at banks that have been identified by the Board as reputable and of high credit quality.

The maximum exposure to credit risk as at 30 April 2011 was £22,965,000 (2010: £20,377,000). The calculation is based on the Company's credit risk exposure as at 30 April 2011 and this may not be representative of the year as a whole.

None of the Company's assets are past due or impaired.

### Liquidity risk

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

Under the terms of the bank facilities the Company must comply with the following financial covenants that: (a) the borrowing (including both loan and overdraft) does not at any time exceed 30% of the value of the investment portfolio after deducting (i) the amount by which the value of any single investment exceeds 5% of the value of the investment portfolio; and (ii) the amount by which the aggregate value of all investments in a single industry sector exceeds 20% of the value of the investment portfolio; and (b) the borrowing does not at any time exceed 80% of the value of the investment portfolio after deducting the value of any investment with a market capitalisation that (i) exceeds £500,000,000, by 10% of the value of such investment; (ii) equals or exceeds £75,000,000 but does not exceed £500,000,000, by 40% of the value of such investment; or, (iii) is less than £75,000,000, by 70% of the value of such investment; and (c) profit before interest and taxation is not at any time less than 200% of the aggregate amount of interest paid and payable.

## 23 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES (continued)

At 30 April 2011, the level of borrowing was 18.7% (2010: 20.5%) of the value of the investment portfolio; a reduction in the market value of investments in the region of 38% would require disposal of investments to ensure ongoing compliance with the lending covenant.

The covenant is reviewed frequently and monitored in conjunction with the Bank on a monthly basis.

### Financial instruments by category

The financial instruments of the Company fall into the following categories:

| 30 April 2011 | At amortised cost £'000 | Loans and receivables £'000 | Assets at fair value through profit or loss £'000 | Derivatives used for hedging £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Assets as per Balance sheet** | | | | | |
| Investments | – | – | 22,689 | – | 22,689 |
| Trade and other receivables | – | 275 | – | – | 275 |
| Cash and cash equivalents | – | 1 | – | – | 1 |
| Total | – | 276 | 22,689 | – | 22,965 |
| **Liabilities as per Balance sheet** | | | | | |
| Trade and other payables | 188 | – | – | – | 188 |
| Bank loan | 4,000 | – | – | – | 4,000 |
| Bank overdraft | 248 | – | – | – | 248 |
| Derivative financial instruments | – | – | – | 321 | 321 |
| Total | 4,436 | – | – | 321 | 4,757 |

## 23 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES (continued)

| 30 April 2010 | At amortised cost £'000 | Loans and receivables £'000 | Assets at fair value through profit or loss £'000 | Derivatives used for hedging £'000 | Total £'000 |
|---|---|---|---|---|---|
| Assets as per Balance sheet | | | | | |
| Investments | – | – | 19,479 | – | 19,479 |
| Trade and other receivables | – | 540 | – | – | 540 |
| Cash and cash equivalents | – | 358 | – | – | 358 |
| Total | – | 898 | 19,479 | – | 20,377 |
| Liabilities as per Balance sheet | | | | | |
| Trade and other payables | 109 | – | – | – | 109 |
| Bank loan | 4,000 | – | – | – | 4,000 |
| Derivative financial instruments | – | – | – | 516 | 516 |
| Total | 4,109 | – | – | 516 | 4,625 |

### IFRS 7 Hierarchy

The Company has adopted the amendment to IFRS 7, effective 1 January 2009. This requires the Company to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy consists of the following three levels:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

An active market is a market in which transactions for the asset or liability occur with sufficient frequency and volume on an ongoing basis such that quoted prices reflect prices at which an orderly transaction would take place between market participants at the measurement date. Quoted prices provided by external pricing services, brokers and vendors are included in Level 1, if they reflect actual and regularly occurring market transactions on an arms length basis.

Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 2 inputs include the following:

- quoted prices for similar (ie not identical) assets in active markets.
- quoted prices for identical or similar assets or liabilities in markets that are not active. Characteristics of an inactive market include a significant decline in the volume and level of trading activity, the available prices vary significantly over time or among market participants or the prices are not current.
- inputs other than quoted prices that are observable for the asset (for example, interest rates and yield curves observable at commonly quoted intervals).

### 23 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES (continued)

**IFRS 7 Hierarchy** (continued)

- inputs that are derived principally from, or corroborated by, observable market data by correlation or other means (market-corroborated inputs).

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement by the Company. The Company considers observable data to investments actively traded in organised financial markets, fair value is generally determined by reference to Stock Exchange quoted market bid prices (or last traded in respect of SETS) at the close of business on the Balance sheet date, without adjustment for transaction costs necessary to realise the asset.

Investments whose values are based on quoted market prices in active markets, and therefore classified within Level 1, include active listed equities. The Company does not adjust the quoted price for these instruments.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2.

Investments classified within Level 3 have significant unobservable inputs. Level 3 instruments include private equity and corporate debt securities. As observable prices are not available for these securities, the Company has used valuation techniques to derive the fair value. The Company has no Level 2 or Level 3 investments, however the interest rate swap derivative is designated a Level 3.

This is due to the fair value obtained being reliant upon inputs obtained from brokers that are indicative and cannot easily be corroborated with observable market data.

At 30 April 2011, the fair value of the interest rate swap derivative designated as a cash flow hedge has been calculated based on the value of entering into an equivalent swap as at that date. This was estimated as follows:

The fair value of the £5,000,000 floating rate swap fixed at 6.2475% expiring 10 July 2012 is £321,000 (2010: £516,000).

The following table presents the movement in the Level 3 instrument for the year ended 30 April 2011:

| | Ineffective element (20%) to income £'000 | Effective element (80%) to equity (hedge reserve) £'000 | Total £'000 |
|---|---|---|---|
| 30 April 2010 | 103 | 413 | 516 |
| Movement in year | (39) | (156) | (195) |
| 30 April 2011 | 64 | 257 | 321 |

# Shareholder information

### Financial calendar

| | |
|---|---|
| Company's year end | 30 April |
| Interim dividends paid | April, July, October and January |
| Annual results announced | July |
| Annual General Meeting | September |
| Company's half year | 31 October |
| Half year results announced | December |

### Share prices and performance information

The Company's Ordinary shares are listed on the London Stock Exchange. The mid-market prices are quoted daily in the Financial Times under 'Investment Companies'.

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

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

### Share register enquiries

The register for the Ordinary shares is maintained by Share Registrars Limited. In the event of queries regarding your holding, please contact the Registrar on 01252 821390. Changes of name and/or address must be notified in writing to the Registrar.

### Interim management statements

Under the EU Disclosure and Transparency Rules DTR 4.3.2R the Company is required to publish interim management statements. These statements are released to the London Stock Exchange and are also available on the Investment Manager's website www.chelvertonam.com.

## Small Companies Dividend Trust PLC
## Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the ANNUAL GENERAL MEETING of the Company will be held at 2.00pm on Friday, 23 September 2011 at the offices of Chelverton Asset Management Limited, 9 Dartmouth Street, London SW1H 9BP for the following purposes:

### Ordinary Business

1 To receive the Report of the Directors and the audited financial statements for the year ended 30 April 2011.

2 To receive and approve the Directors' remuneration report.

3 To re-elect Lord Lamont as a Director.

4 To re-elect Mr W van Heesewijk as a Director.

5 To elect Mr H Myles as a Director.

6 To re-appoint Hazlewoods LLP as Auditors and to authorise the Directors to determine their remuneration.

### Special Business

To consider and, if thought fit, to pass the following Resolutions of which Resolution 7 will be proposed as an Ordinary Resolution and Resolutions 8 and 9 will be proposed as Special Resolutions.

7 THAT the Directors be and are hereby generally and unconditionally authorised pursuant to Section 551 of the Companies Act 2006 ('the Act') (in substitution for any existing allotment authorities, provided that such substitution shall not have retrospective effect) to exercise all the powers of the Company to allot shares and to grant rights to subscribe for, or to convert any security into, shares in the Company ('the Rights') up to an aggregate nominal value equal to £1,354,166 being one-third of the issued Ordinary share capital as at 30 April 2011, during the period commencing on the date of the passing of this resolution and expiring (unless previously renewed, varied or revoked by the Company in general meeting) at the conclusion of the Annual General Meeting of the Company to be held in 2012, or fifteen months from the passing of this resolution, whichever is earlier (the 'Period of Authority'), but so that the Directors may, at any time prior to the expiry of the Period of Authority, make offers or agreements which would or might require shares to be allotted and/or Rights to be granted after the expiry of the Period of Authority and the Directors may allot shares or grant Rights in pursuance of such offers or agreements as if the authority had not expired.

8 THAT, subject to the passing of Resolution 7 above, the Directors of the Company be and they are hereby empowered pursuant to Section 570 and Section 573 of the Companies Act 2006 ('the Act') to allot equity securities (within the meaning of Section 560 of the Act) for cash pursuant to the authority conferred by Resolution 7 above as if Section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:

a) the allotment of equity securities in connection with a rights issue, open offer or any other offer in favour of Ordinary shareholders where the equity securities respectively attributable to the interests of all Ordinary shareholders are proportionate (as nearly as may be) to the respective number of Ordinary shares held by them subject to such exclusions or other arrangements as the Directors may deem fit to deal with fractional entitlements, record dates, legal, regulatory or practical problems arising under the laws of any overseas territory or the requirements of any regulatory authority or any stock exchange;

b) to the sale of Ordinary shares held by the Company as Treasury shares, treated as an allotment of equity securities by virtue of Section 573 of the Act; and

c) to the allotment (otherwise than pursuant to paragraphs (a) and (b) above) of equity securities up to an aggregate nominal amount of £406,250, being 10% of the issued Ordinary share capital as at 30 April 2011 and shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2012, or fifteen months from the passing of this resolution, whichever is earlier, save that the Company may before such expiry make offers, agreements or arrangements which would or might require equity securities to be allotted after such expiry and so that the Directors of the Company may allot equity securities in pursuance of such offers, agreements or arrangements as if the power conferred hereby had not expired.

9 THAT the Company is hereby generally and unconditionally authorised in accordance with Section 701 of the Companies Act 2006 ('the Act') to make market purchases (within the meaning of Section 693 of the Act) of Ordinary shares of 25p each in the capital of the Company ('Ordinary shares') for cancellation or for placing into Treasury provided that:

a) the maximum aggregate number of Ordinary shares authorised to be acquired is 2,435,875, or if less, 14.99% of the Ordinary shares in issue and in circulation immediately following the passing of this resolution;

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

c) the maximum price which may be paid for each Ordinary share is, in respect of a share contracted to be purchased on any day, an amount which shall not be more than the higher of (i) 5% above the average of the middle market quotations (as derived from the Daily Official List of the London Stock Exchange) of the Ordinary shares for the five business days immediately preceding the date on which the Ordinary share is purchased, and (ii) the higher of the price of the last independent trade and the highest current independent bid on the London Stock Exchange;

d) this authority will (unless renewed) expire at the conclusion of the next Annual General Meeting of the Company or, if earlier, eighteen months from the date on which this resolution is passed; and

e) the Company may make a contract to purchase Ordinary shares under this authority before this authority expires which will or may be executed wholly or partly after its expiration and may make a purchase of Ordinary shares pursuant to any such contract.

By order of the Board
**Capita Sinclair Henderson Limited**
Secretary
*14 July 2011*

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

## Explanatory notes to the notice of meeting

As a shareholder, you have the right to attend, speak and vote at the forthcoming Annual General Meeting or at any adjournment(s) thereof. In order to exercise all or any of these rights you should read the following explanatory notes to the business of the Annual General Meeting.

## Notes

1. *A member entitled to attend, vote and speak at this meeting may appoint one or more persons as his/her proxy to attend, speak and vote on his/her behalf at the meeting. A proxy need not be a member of the Company. If multiple proxies are appointed they must not be appointed in respect of the same shares. To be effective, the enclosed form of proxy, together with any power of attorney or other authority under which it is signed or a certified copy thereof, should be lodged at the office of the Company's Registrar, Share Registrars Limited, Suite E, First Floor, 9 Lion and Lamb Yard, Farnham, Surrey GU9 7LL not later than 48 hours before the time of the meeting. The appointment of a proxy will not prevent a member from attending the meeting and voting and speaking in person if he/she so wishes. A member present in person or by proxy shall have one vote on a show of hands and on a poll shall have one vote for every ordinary share of which he is the holder.*

   *In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the vote or votes of the other joint holder or holders, and seniority shall be determined by the order in which the names of the holders stand in the register.*

   *Any question relevant to the business of the Annual General Meeting may be asked at the meeting by anyone permitted to speak at the meeting. You may alternatively submit your question in advance by letter addressed to the Company Secretary at the registered office.*

2. *A person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the Shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the Shareholder as to the exercise of voting rights.*

3. *The statements of the rights of members in relation to the appointment of proxies in Note 1 above do not apply to a Nominated Person. The rights described in those Notes can only be exercised by registered members of the Company.*

4. *As at 13 July 2011 (being the last business day prior to the publication of this notice) the Company's issued share capital amounted to 16,250,000 Ordinary shares carrying one vote each.*

5. *Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those Shareholders registered on the Register of Members of the Company as at 2.00pm on 21 September 2011 (or in the event that the meeting is adjourned, only those Shareholders registered on the Register of Members of the Company as at 2.00pm on the day which is 48 hours prior to the adjourned meeting) shall be entitled to attend in person or by proxy and vote at the Annual General Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the Register of Members after that time shall be disregarded in determining the rights of any person to attend or vote at the meeting.*

6. *In accordance with Section 319A of the Companies Act 2006, the Company must cause any question relating to the business being dealt with at the meeting put by a member attending the meeting to be answered. No such answer need be given if:*

   a) *to do so would:*
      i) *interfere unduly with the preparation for the meeting, or*
      ii) *involve the disclosure of confidential information;*

   b) *the answer has already been given on a website in the form of an answer to a question; or*

   c) *it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.*

*7. A person authorised by a corporation is entitled to exercise (on behalf of the corporation) the same powers as the corporation could exercise if it were an individual member of the Company (provided, in the case of multiple corporate representatives of the same corporate shareholder, they are appointed in respect of different shares owned by the corporate shareholder or, if they are appointed in respect of those same shares, they vote those shares in the same way). To be able to attend and vote at the meeting, corporate representatives will be required to produce prior to their entry to the meeting evidence satisfactory to the Company of their appointment. Corporate shareholders can also appoint one or more proxies in accordance with Note 1. On a vote on a resolution on a show of hands, each authorised person has the same voting rights to which the corporation would be entitled. On a vote on a resolution on a poll, if more than one authorised person purports to exercise a power in respect of the same shares:*

*a) if they purport to exercise the power in the same way as each other, the power is treated as exercised in that way;*

*b) if they do not purport to exercise the power in the same way as each other, the power is treated as not exercised.*

*8. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for this meeting by following the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.*

*In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, in order to be valid, must be transmitted so as to be received by the Company's agent (ID 7RA36) by the latest time for receipt of proxy appointments specified in Note 1 above. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.*

*CREST members and, where applicable, their CREST sponsors or voting service providers, should note that Euroclear does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.*

*The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.*

*9. Shareholders should note that it is possible that, pursuant to requests made by shareholders of the Company under section 527 of the Companies Act 2006, the Company may be required to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Companies Act 2006. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on a website.*

# Glossary of terms

**Net asset value ('NAV')**

The NAV is shareholders' funds expressed as an amount per individual share. Shareholders' funds are the total value of all the Company's assets, at current market value, having deducted all prior charges at their par value (or at their asset value).

**Discount**

If the share price of an investment trust is lower than the NAV per share, the shares are said to be trading at a discount. The size of the discount is calculated by subtracting the share price from the NAV per share and is usually expressed as a percentage of the NAV per share. If the share price is higher than the NAV per share, the shares are said to be trading at a premium.

**Gearing**

Gearing is the process whereby changes in the total assets of a company have an exaggerated effect on the net assets of that company's ordinary shares due to the presence of borrowing or share classes with a prior ranking entitlement to capital.

**Total expense ratio**

The total expenses incurred by a company, including those charged to capital (excluding performance fee and finance costs and exceptional costs) as a percentage of total assets less current liabilities.

**Total return**

The combined effect of any dividends paid, together with the rise or fall in the share price or NAV. Total return statistics enable the investor to make performance comparisons between trusts with different dividend policies. Any dividends (after tax) received by a shareholder are assumed to have been reinvested in either additional shares of the trust at the time the shares go ex-dividend (the share price total return) or in the assets of the trust at its NAV per share (the NAV total return).

# Directors and Advisers

| | |
|---|---|
| **Directors** | Lord Lamont of Lerwick (Chairman)<br>David Harris<br>William van Heesewijk<br>Howard Myles |
| **Investment Manager** | Chelverton Asset Management Limited<br>12b George Street<br>Bath BA1 2EH<br>Tel: 01225 483030 |
| **Secretary and Registered Office** | Capita Sinclair Henderson Limited<br>(trading as Capita Financial Group – Specialist Fund Services)<br>Beaufort House<br>51 New North Road<br>Exeter EX4 4EP<br>Tel: 01392 412122 |
| **Registrar and Transfer Office** | Share Registrars Limited<br>Suite E<br>First Floor<br>9 Lion and Lamb Yard<br>Farnham<br>Surrey GU9 7LL<br>Tel: 01252 821 390<br>www.shareregistrars.uk.com |
| **Bankers** | Lloyds TSB Bank Plc<br>25 Gresham Street<br>London EC2V 7HN |
| **Auditors** | Hazlewoods LLP<br>Windsor House<br>Bayshill Road<br>Cheltenham GL50 3AT |
| **Custodian** | HSBC Global Services<br>Level 27<br>8 Canada Square<br>London<br>E14 5HQ |

# Small Companies Dividend Trust 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/our behalf at the Annual General Meeting of the Company to be held at 2 pm at the offices of Chelverton Asset Management Limited, 9 Dartmouth Street, London SW1H 9BP on Friday, 23 September 2011 and at any adjournment thereof.

Signature ..............................................................................................

Date .......................................................................................... 2011

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

☐ Please tick here to indicate that this proxy appointment is one of multiple appointments being made.

## ORDINARY RESOLUTIONS

| | | FOR | AGAINST | VOTE WITHHELD |
|---|---|---|---|---|
| **RESOLUTION 1** | To receive the Report of the Directors and the audited financial statements for the year ended 30 April 2011. | | | |
| **RESOLUTION 2** | To receive and approve the Directors' remuneration report. | | | |
| **RESOLUTION 3** | To re-elect Lord Lamont as a Director. | | | |
| **RESOLUTION 4** | To re-elect Mr van Heesewijk as a Director. | | | |
| **RESOLUTION 5** | To elect Mr Myles as a Director. | | | |
| **RESOLUTION 6** | To re-appoint Hazlewoods LLP as Auditors and to authorise the Directors to determine their remuneration. | | | |
| **RESOLUTION 7** | Section 551 authority to allot shares. | | | |

## SPECIAL RESOLUTIONS

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|---|---|---|---|---|
| **RESOLUTION 8** | Section 573 authority to allot shares. | | | |
| **RESOLUTION 9** | Authority to buyback shares. | | | |

## NOTES

1. *A member may appoint a proxy of his/her 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 proxy will exercise his/her discretion as to how he/she votes or whether he/she abstains from voting.*
5. *To be valid, this form must be completed and deposited at the office of the Company's Registrars 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.*
6. *A "vote withheld" is not a vote in law and will not be counted in the calculation of the proportion of the votes for and against the resolution. The "vote withheld" option is provided to enable you to instruct the registered holder to abstain from voting.*
7. *You are entitled to appoint more than one proxy provided that each proxy is appointed to exercise rights attached to a different share or shares held by you. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, (an) additional Proxy Form(s) may be obtained by contacting the Registrars helpline or you may photocopy this form. Please indicate in the box next to the proxy holder's name the number of shares in relation to which they are authorised to act as your proxy. Please also indicate by ticking the box provided, if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.*

## Notes

# Notes

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