
SMALL COMPANIES DIVIDEND TRUST PLC

Annual Report

for the year ended 30 April 2013

Investment objective and policy

The investment objective of Small Companies Dividend Trust plc (the ‘Company’) is to provide Ordinary shareholders with a high income and opportunity for capital growth, having provided a capital return sufficient to repay the capital entitlement of the Zero Dividend Preference shares issued by the subsidiary company, Small Companies ZDP PLC (‘SCZ’).

The Group’s funds are invested principally in smaller capitalised UK companies. The portfolio comprises companies listed on the Official List and companies admitted to trading on AIM. The Group does not invest in other investment trusts or in unquoted companies. No investment is 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.

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Financial highlights

	30 April	30 April	
	2013	2012	% change
Capital			
Total net assets (£'000)	22,579	17,180	31.43
Net asset value per Ordinary share	138.95p	105.72p	31.43
Mid-market price per Ordinary share	128.50p	98.00p	31.12
Discount	7.52%	7.30%	
Net asset value per Zero Dividend Preference share	104.00p	–	
Mid-market price per Zero Dividend Preference share	112.75p	–	
Premium	8.41%	–	
	Year ended	Year ended	
	30 April	30 April	
Revenue	2013	2012	% change
Return per Ordinary share	7.02p	5.53p	26.94
Dividends declared per Ordinary share	6.60p	6.40p	
Total Return			
Total assets less current liabilities (excluding bank borrowings) total return on Group's net assets*	46.35%	1.97%	
Total return on Group's net assets*	37.10%	0.02%	
Ongoing charges**	2.38%	2.36%	

* Adding back dividends paid in the year and excluding derivative financial instruments shown as a current liability on the Balance sheet in order that the figure is comparable with 30 April 2012.

** Calculated in accordance with the new Association of Investment Companies ('AIC') guidelines. Based on total expenses, excluding finance costs for the year and average net asset value. Previously this figure had been calculated based on total expenses and average total asset value.

Chairman's report

Results

The Company's net asset value per Ordinary share at 30 April 2013 was 138.95p (2012: 105.72p), an increase over the year of 31.43%. Dividends totalling 6.60p per share were declared for the year. During the same period the MSCI Index increased by 16.58% and the MSCI SmallCap Index increased by 25.48%.

Since the Company was launched, on 12 May 1999, the net asset value per Ordinary share has risen by 44.74% and a total of 129.75p has been paid in dividends. Since the year end, the net asset value per Ordinary share has risen to 142.40p as at 30 June 2013 after payment of the fourth interim dividend of 2.40p.

The Company is invested in 71 companies across 19 sectors. This spread creates a well diversified portfolio which we expect will lead to steady revenue growth and, in time, capital growth.

Dividend growth has again been strong in the past year and despite paying increased dividends of 6.60p the Company has been able to add to revenue reserves. The impact of the introduction of Zero Dividend Preference shares was not fully felt in the year and we expect in the year to April 2014 that earnings will exceed dividends again and a further surplus will be used to replenish revenue reserves.

The Company has enjoyed strong performance with share prices generally increasing and with the Company's portfolio outperforming the market. However, since January the focus of investors' attention has been more on larger companies and this has been reflected in the rise in the FTSE 100 Index in the first few months of the year.

Zero Dividend Preference shares

Shareholders approved the issue of 8,500,000 Zero Dividend Preference shares in SCZ at an EGM on 24 August 2012. The Zero Dividend Preference shares have a redemption date of 8 January 2018 and an annual gross coupon of 6%.

Bank facility

The Company started the year with borrowing facilities of a £4 million fixed loan with Lloyds TSB Bank plc and a £2 million overdraft facility with HSBC Bank plc. During the year part of the proceeds of the issue of 8,500,000 Zero Dividend Preference shares in SCZ was used to repay all outstanding bank debt.

Dividend

The Board has declared a fourth interim dividend of 2.40p per Ordinary share (2012: 2.35p) which when added to the three quarterly interim dividends of 1.40p (2012: 1.35p), equates to a total dividend for the year of 6.60p per Ordinary share (2012: 6.40p), an increase of 3.13% over the previous year.

The Company has revenue reserves, which after payment of the fourth dividend, represent 87% of the current annual dividend or 5.76p per Ordinary share.

Outlook

Once again the vast majority of the companies we are invested in have reported improved results in the period under review. The analysts are generally forecasting steady improvement in the current year and it is in "UK centric" businesses, which are the focus of our investment policy, that the impact of the drive to reduce the fiscal deficit will be felt.

Chairman's report (continued)

The UK seems to have avoided the triple dip recession but the fiscal reduction programme has slowed. This process will take time and only when confidence has returned can we expect to see capital spending from our investee companies.

Despite the persistently above target level of inflation and the unresolved problems in the Eurozone position, the UK economy appears to be slowly improving and we hope for a return to a modest level of growth in the UK economy.

Lord Lamont of Lerwick

Chairman

8 July 2013

Investment Manager's report

The year to 30 April 2013 has seen strong growth in the Company's asset value and with the new issue of the Zero Dividend Preference shares the appropriate capital structure is now in place until January 2018.

In this fiscal year investors returned to the market by buying the very largest of UK quoted companies and as a result pushed the FTSE 100 Index close to its all-time high achieved in 1999. In addition, the smaller, but nonetheless world leading companies that are in the FTSE 250 have been brought to heroic ratings. Whilst the Small and Mid-Cap companies that this trust invests in have gone up in value, they still remain on reasonable price earnings multiples and of course, of great importance to this Group, good dividend yields.

In the past year we have seen some strong dividend growth as companies have effectively completed the debt repayment phase, which was started in 2008, and in the absence of mergers and acquisitions, and lacking the confidence to commit to large investment projects, their cash reserves have increased. This is part of the explanation for the increase in companies paying special dividends as they recognise that shareholders are seeking income but they themselves do not want to commit to a higher threshold for normal dividends which they will have to support in the future.

Business confidence needs to improve before companies start to increase their investment in their capital stock and their people. This will come and it is of course essential to ensure that these companies are producing the earnings in the future to pay the increased dividends that your Company needs.

Portfolio review

During the year we had, like last year, four takeovers, Omega Insurance, Psion, Timeweave and Titan Europe. Unfortunately none of these were particularly satisfactory for the Company as they were not completed at large premia and were generally companies that had underperformed in the recent past. However, we also recognise that in the period between 2003 and 2007 when a large number of companies we were invested in were taken over at large premiums, we were also unhappy because these were high quality companies which were hard to replace!

Five stocks were sold in their entirety, with only Greene King and Greencore being memorable as strong contributors to the Company's performance. ATH Resources and Metalrax were sold at very significant losses.

Holdings were reduced in S & U, Arbuthnot Banking, Smiths News, St Ives, Wilmington Group, Beazley and Brown (N) Group after strong share price performance.

As part of our investment process we like to have investments in 60–80 companies, and the net proceeds of the Zero Dividend Preference share issue after repaying all of the bank debt, and the cash from the realisations above, were utilised in increasing the number of holdings and adding to smaller existing holdings.

Thirteen new shareholdings were added to the Company's investments. Stocks acquired include Acal – an electrical component distributor which the Company has previously owned; Kier Group – a contractor; National Express Group – an operator of bus and rail services; Numis – a middle market stockbroker; and NWF Group – a manufacturer and supplier of animal feeds, distributor of ambient grocery and domestic oil. Again NWF Group is a company that we have owned and achieved excellent profits in the past. Other smaller purchases include Albermarle & Bond – a pawnbroker; Centaur Media – marketing services; and Games Workshop Group – a supplier of games figures.

Investment Manager's report (continued)

Outlook

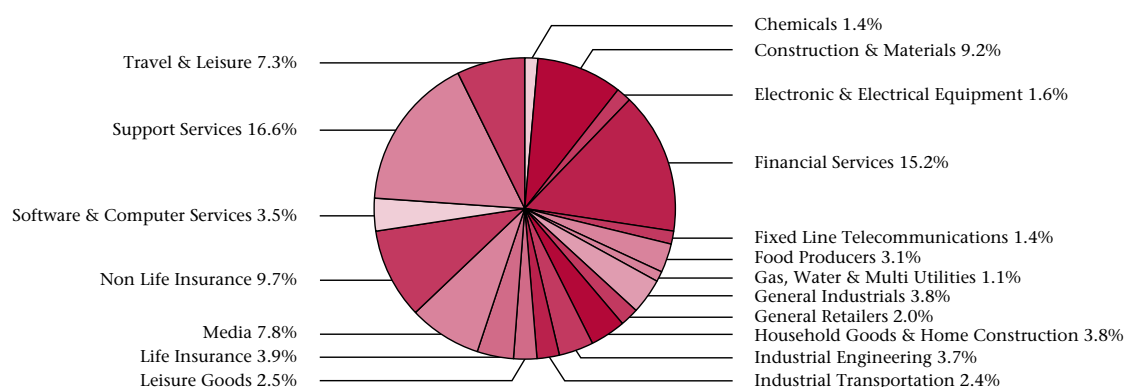
Finally, at least in respect of the UK, we are beginning to see the first signs of positive trends in terms of employment, inflation and even GDP growth. It is certainly nothing to compare yet with the United States, but it is beginning to look rather more positive when compared with the members of the Eurozone.

We believe that on the basis of profit forecasts and medium term cash flow prospects, current valuations of our universe remain attractive and we continue to focus on the ability of our portfolio to deliver income as a key component of total return.

As we have said before, the Company performs very well in periods of acquisition and consolidation and as corporate confidence improves we would expect to see more corporate activity. With the capital structure in place until January 2018, the Group is in a good position to take advantage of buying opportunities as they become available when short sharp corrections take place.

Breakdown of Portfolio by Industry

at 30 April 2013



Source: Capita Sinclair Henderson Limited

Investment Manager's report (continued)

Twenty Largest Holdings

at 30 April 2013

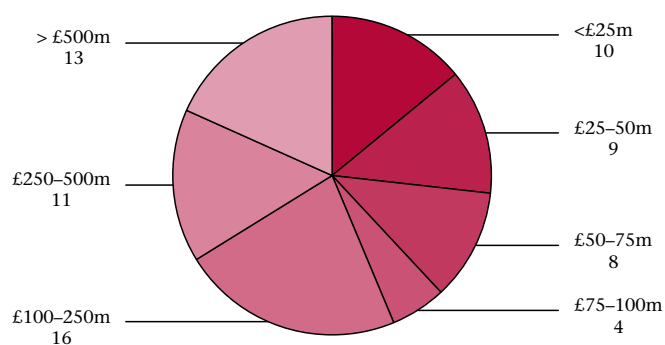
		% of portfolio
Macfarlane Group	Packaging distribution	3.2
Avesco Group	Providers of specialist services to the corporate presentation, entertainment and broadcast markets	3.0
GVC Holdings	Provides B2B and B2C services to the online gaming and sports betting markets	2.7
Randall & Quilter	Specialist non-life insurance investor, service provider and underwriting manager	2.5
St Ives	Printing and marketing solutions	2.5
Marshalls Group	Supplies the domestic, public sector and commercial markets with ranges of hard landscaping products	2.4
Intermediate Capital Group	Specialist investment firm and asset manager	2.4
Smiths News	The UK leading wholesaler of newspapers and magazines and a leading UK book wholesaler	2.3
Chesnara	Life assurance	2.3
Sanderson Group	UK provider of software solutions and IT services	2.3
Portmeirion Group	Markets and manufactures an extensive range of high quality tableware, cookware and giftware	2.2
Dairy Crest Group	Producer of dairy products	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	2.1
Jarvis Securities	Operates a number of retail stockbroking brands that provide nominee, certificated, SIPP and ISA accounts to individuals and organisations. It also provides outsourced financial administration services to investment firms	2.1
Personal Group Holdings	A group of companies providing accident and health insurance, employee benefits, financial advice, and personal insurance and reinsurance broking services	2.1
Abbey Protection	A specialist insurance intermediary focused on the underwriting and sale of legal and professional fees insurance to businesses	2.1
Morgan Sindall Group	UK construction and urban regeneration group	2.0
Brown (N) Group	Leading internet and catalogue home shopping	2.0
Photo-Me International	Provides consumers with a convenient and cost-effective means of obtaining ID photos which are compliant with UK passport and driving licence standards	2.0
Wilmington Group	Provides information and training to selected professional business markets	1.9
Top twenty companies total		46.3
Balance held in 51 holdings		53.7
Total portfolio		100.0

Investment Manager's report (continued)

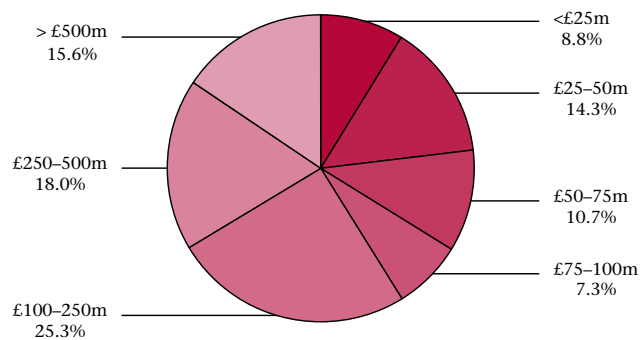
Breakdown of Portfolio by Market Capitalisation

at 30 April 2013

Number of Companies



% of Portfolio



Source: Capita Sinclair Henderson Limited

David Horner and David Taylor

Chelverton Asset Management Limited

8 July 2013

Directors

The Directors are:

The Rt Hon. Lord Lamont of Lerwick* (Chairman) was Chancellor of the Exchequer between 1990-1993. Prior to his appointment, Lord Lamont was Chief Secretary to the Treasury between 1989-1990. Following his retirement 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 Phorm, Inc. and Jupiter Second Split Trust PLC, and he is chairman of iO Adria Limited. He is an adviser to BC Partners and Stanhope Capital.

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 the Character Group plc, Aseana Properties Limited and Core VCT V PLC. Since 2007 he has been a director of F&C Managed Portfolio Trust plc. Mr Harris is also a director of Manchester and London Investment Trust 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. During his tenure with Fidelity Investments International, Gartmore Investment Management plc and BFS Investments plc he managed several launches of onshore and offshore investment funds, including a number of roll-overs and reconstructions involving complex capital structures and across several geographic regions. His roles involved business development, project management, sales and marketing. He is Business Development Director with Chelverton Asset Management Limited. He is a member of the Association of Investment Companies Managers forum.

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. Mr Myles 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, JPMorgan Brazil Investment Trust plc and Bilfinger Berger Global Infrastructure SA.

Mr Myles was appointed to the Board on 15 March 2011. He is Chairman of the Management Engagement Committee, Nomination Committee and Remuneration Committee.

* 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 largely owned by its employees.

Chelverton is a boutique fund manager focused on UK small companies and has a successful track record. At 30 April 2013, total funds under management were £160 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 Conduct Authority.

Following a review of the Investment Management arrangements during the year, Chelverton has agreed to cancel its performance fee entitlement. One of the conditions of the performance fee is that a "minimum total dividend of 11.25p is paid in respect of the financial year ended April 2006 and then increased by at least as much as inflation in subsequent years".

Therefore, on the basis that the target dividend "high water mark" is not reasonably achievable in the near future it was agreed to cancel the performance fee entitlement in its entirety with immediate effect.

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

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

Report of the Directors

(which incorporates the Statement on corporate governance on pages 17 to 23)

The Directors present their Report and the financial statements of the Group and the Company for the year ended 30 April 2013. The registered number of Small Companies Dividend Trust PLC is 3749536.

The Group financial statements consolidate the audited financial statements of the Company and its subsidiary undertaking drawn up for the year ended 30 April 2013.

Business review

The Business review has been prepared in accordance with the Companies Act 2006 and should be read in conjunction with the Chairman's Report and Investment Manager's Report.

Company status, objective and review

The Company was incorporated on 6 April 1999 and commenced trading on 12 May 1999. Its capital structure consists of Ordinary shares of 25p each of which 16,250,000 are in issue. There were no changes to the share capital during the year.

The Company owns 100% of the shares of Small Companies ZDP Plc ("SCZ") which was incorporated on 13 July 2012. SCZ issued 8,500,000 Zero Dividend Preference shares on 28 August 2012, which have been admitted to the Official List of the UK Listing Authority and to trading on the London Stock Exchange. Further details of the Zero Dividend Preference shares and the loan and contribution agreements entered into by the Company and SCZ can be found in notes 17 and 18 to the financial statements on page 44.

The principal activity of the Company is to carry on business as an investment trust. New regulations for obtaining and retaining investment trust status have been published by HM Revenue & Customs ('HMRC') and came into force on 1 January 2012. The Company has applied for, and been granted, approval from HMRC as an investment trust under sections 1158/1159 of the Corporation Tax Act 2010 ('1158/1159') for the year ended 30 April 2013. The Company will be treated as an investment trust company for each subsequent accounting period, subject to there being no subsequent serious breaches of the conditions for approval. The Company is also an investment company as defined in section 833 of the Companies Act 2006.

The new rules removed the maximum holding in any one investment of 15% and replaced this with a risk diversification approach. The Board has considered this and agreed that the Company's investment policy offers suitable risk diversification. One of the criteria for continued compliance is that the Company distributes a minimum of 85% of all its income as dividend payments. The Company could lose its investment trust company status if it became a close company at any time during the accounting period. Failure by the Company to satisfy the new requirements could result in it being subject to capital gains tax arising on the sale of investments. Further details on the operation of investment trusts can be obtained from the AIC on their website at www.theaic.co.uk.

The investment objective of the Company is to provide Ordinary shareholders with a high income and opportunity for capital growth, having provided a capital return sufficient to repay the capital entitlement of the Zero Dividend Preference shares issued by the subsidiary company SCZ.

Investment policies and restrictions

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

- The Company's assets comprise investments in equities in order to achieve its investment objectives. It is the aim of the Company to provide both income and capital growth predominantly through investment in smaller capitalised United Kingdom companies admitted to the Official List of the United Kingdom Listing Authority and traded on the London Stock Exchange Main Market or traded on AIM.

Report of the Directors (continued)

- The Company will not invest in preference shares, loan stock or notes, convertible securities or fixed interest securities or any similar securities convertible into shares; nor will it invest in the securities or other investment trusts or in unquoted companies.
- There is no set limit on the Company's gearing.

The Chairman's report on pages 2 and 3 and the Investment Manager's report on pages 4 to 7 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 Group's success in achieving its objectives, including the net asset value ('NAV'), the dividend per share and the total ongoing charges.

- The Group's Consolidated statement of comprehensive income is set out on page 29.
- A total dividend for the year to 30 April 2013 of 6.60p (2012: 6.40p) per Ordinary share has been declared to shareholders by way of three payments of 1.40p per Ordinary share and a fourth interim payment of 2.40p per Ordinary share.
- The NAV per Ordinary share at 30 April 2013 was 138.95p (2012: 105.72p).
- The ongoing charges (including investment management fees and other expenses but excluding performance fees and exceptional items) for the year ended 30 April 2013 were 2.38% (2012: 2.36%).

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.

Report of the Directors (continued)

Regulatory risks

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

Financial risk

The financial situation of the Group 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.

A more detailed explanation of the financial risks facing the Group is given in note 26 to the financial statements on pages 48 to 53.

Social, environmental and employee issues

The Group does not have any employees and the boards of both companies consist entirely of non-executive Directors. As the business of the Group is to invest 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 2 and 3 and the Investment Manager's report on pages 4 to 7.

The marketing and promotion of the Group 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

		30 April 2013	30 April 2012
	Payment date	pence	pence
First interim	28 September 2012	1.40	1.35
Second interim	7 January 2013	1.40	1.35
Third interim	15 April 2013	1.40	1.35
Fourth interim	10 July 2013	2.40	2.35
		<u>6.60</u>	<u>6.40</u>

The Directors have not recommended a final dividend in respect of the year ended 30 April 2013.

Report of the Directors (continued)

Directors

The Directors who served during the year ended 30 April 2013 were as follows:

Lord Lamont
D Harris
W van Heesewijk
H Myles

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, except Mr van Heesewijk who by virtue of his employment with Chelverton is interested in the Investment Management Agreement. 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 or its subsidiary undertakings, to any Director at any time during the year or thereafter.

Directors' beneficial and family interests

	30 April 2013		1 May 2012	
	Ordinary shares	Zero Dividend Preference shares	Ordinary shares	Zero Dividend Preference shares
Lord Lamont	62,305	10,000	61,808	n/a
D Harris	5,802	–	5,802	n/a
W van Heesewijk	82,000	–	79,182	n/a
H Myles	–	–	–	n/a

There have been no changes in these figures since 30 April 2013.

Management agreements

The Company's investments are managed by Chelverton Asset Management Limited under an agreement ('the Investment Management Agreement') dated 30 April 2006 (effective from 1 December 2005). A periodic fee is payable quarterly in arrears at an annual rate of 1% of the value of the gross assets under management of the Company.

The Investment Management Agreement may be terminated by twelve months' written notice. There are no additional arrangements in place for compensation beyond the notice period.

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

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 Group and its shareholders. The Directors are satisfied that Chelverton has the required skill and expertise to continue to successfully manage the Group's assets.

Report of the Directors (continued)

Substantial shareholdings

The Directors have been notified of the following substantial interests in the voting shares of the Company at 30 April 2013:

Ordinary shares	Number of shares	% of voting rights
Philip J Milton & Company	1,560,438	9.60
Midas Investment Management (Private Clients)	1,426,994	8.78
<i>MDCLT</i>	864,159	5.32
<i>MDISA</i>	562,835	3.46
Henderson Global Investors	1,390,497	8.56
<i>New Star Higher Income Fund</i>	910,497	5.60
Charles Stanley Group	1,511,832	9.30
Wise Investments	934,357	5.75
Jupiter Monthly Income Fund	600,000	3.69
Consistent Unit Trust Management	775,000	4.77
Dartmoor Investment Trust	565,000	3.48

The Company has not been notified of any changes to the above holdings between 30 April 2013 and the date of this report.

Special business at the Annual General Meeting

The Company's AGM will be held at 11.00 am on Wednesday 18 September 2013. The Notice of meeting is set out on pages 59 to 62.

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 7 September 2012 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 2014 or fifteen months from the passing of the resolution, whichever is earlier.

A Special Resolution was also passed on 7 September 2012 giving the Directors power to issue Ordinary shares for cash notwithstanding the pre-emption provisions of the Companies Act 2006 and permitting the Directors to issue shares 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 2014 or fifteen months from the passing of the resolution, whichever is earlier. The authorities to issue shares will only be used when it would be in the interests of shareholders as a whole.

Report of the Directors (continued)

Purchase of own shares

At the AGM held on 7 September 2012 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. No shares have been purchased under this authority which remains in force. 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 2014 or eighteen months from the passing of this resolution, whichever is earlier.

Purchases will be made on the open market. The price paid for Ordinary shares will not be less than 25p 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. Shares may be cancelled or placed in Treasury.

Pursuant to the loan agreement between the Company and SCZ, the Company will not purchase any of its Ordinary shares out of capital reserves unless the cover for the Zero Dividend Preference shares is at least 1.9 times after the purchase.

Notice period for general meetings

Resolution 10 is a special resolution that will give the Directors the ability to convene general meetings, other than annual general meetings, on a minimum of 14 clear days' notice. The minimum notice period for annual general meetings will remain at 21 clear days. The approval will be effective until the Company's Annual General Meeting to be held in 2014, at which it is intended that renewal will be sought. The Company will have to offer facilities for all shareholders to vote by electronic means for any general meeting convened on 14 days' notice. The Directors will only call a general meeting on 14 days' notice where they consider it to be in the interests of shareholders to do so and the relevant matter is required to be dealt with expediently.

Recommendation

The Board considers that the resolutions to be proposed at the AGM are in the best interests of shareholders as a whole 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.

Payment of suppliers

It is the Group's policy to obtain the best possible terms for all business and therefore the Group does not follow any code or standard on payment practice. The Group agrees with its suppliers the terms on which business will be transacted, and it is the Group's policy to abide by those terms and this policy will continue for future years. At 30 April 2013 (and at 30 April 2012) all suppliers' invoices received had been settled.

Company information

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

- The Group's capital structure and voting rights are summarised on page 56.
- Details of the substantial shareholders in the Company are listed on page 14.
- The rules concerning the appointment and replacement of Directors are contained in the Company's Articles of Association and are discussed on page 19.

Report of the Directors (continued)

- 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 14 and 15.
- 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.

ISA status

The Company's Ordinary shares are qualifying investments for Individual Savings Accounts ('ISAs'), as are the Zero Dividend Preference shares of Small Companies ZDP PLC.

Going concern

The Group'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 2 and 3 and in the Investment Manager's report on pages 4 to 7. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the financial statements. In addition, note 26 to the financial statements sets out the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposure to credit risk and liquidity risk. The Group has adequate financial resources and as a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the economic outlook, and continue to adopt the going concern basis.

Auditor

The Auditor, Hazlewoods LLP, has indicated its willingness to continue in office, and Resolution 6 proposing its re-appointment and authorising the Directors to determine its remuneration for the ensuing year will be submitted at the AGM.

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 Auditor is 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 Auditor.

On behalf of the Board

Lord Lamont of Lerwick

Chairman

8 July 2013

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 Group'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 2013 except as explained 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 Corporate Governance Guide ('the AIC Guide'), addresses all the principles set out in the Governance Code, and there are some areas where the AIC Code is more flexible than the Governance Code for investment 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:

- Owing 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.
- Owing to the size of the Board, it is also felt inappropriate to appoint a senior independent non-executive Director.
- 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.
- As the Group has no staff, other than Directors, there are no procedures in place in relation to whistle-blowing. The Board has satisfied itself there are appropriate whistle-blowing procedures in place at its service providers.

Board responsibilities and relationship with Investment Manager

The Board is responsible for the investment policy and strategic and operational decisions of the Group and for ensuring that the Group 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 which has been adopted for all meetings. These matters include:

- the maintenance of clear investment objectives and risk management policies, changes to which require Board approval;
- the monitoring of the business activities of the Group, including investment performance and annual budgeting; and
- review of matters delegated to the Investment Manager, Administrator or Secretary.

Statement on corporate governance (continued)

The Group's day-to-day 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 Group'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 Group's affairs. The Board regularly considers its overall strategy.

The management of the Group'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 Group's economic and financial environment, statutory and regulatory changes and corporate governance best practice.

Small Companies Dividend Trust plc has arranged a Directors' and Officers' Liability insurance policy which includes cover for legal expenses.

The Articles of Association of both the Company and SCZ provide the Directors, subject to the provisions of UK legislation, with an indemnity in respect of liabilities which they may sustain or incur in connection with their appointment. Save for this, there are no qualifying third party indemnity provisions in force.

Board membership

At the year end the Board consisted of four Directors, all of whom are non-executive. The Group has no employees. The Board seeks to ensure that it has the appropriate balance of skills, experience and length of service amongst its members. The Board's policy on tenure is that Directors can stand for more than nine years. The Board considers that length of service does not necessarily compromise the independence or contribution of directors of investment trust companies where experience and continuity can be a significant strength. The Directors possess a wide range of business and financial expertise relevant to the direction of the Group and Company and consider that they commit sufficient time to the Group and Company's affairs. On appointment to the Board, Directors are fully briefed as to their responsibilities by the Chairman and the Investment Manager. Brief biographical details of the Directors can be found on page 8.

The Directors 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 2013 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 Group's affairs. The Company does not have a chief executive officer, as it has no executive directors.

Statement on corporate governance (continued)

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 and Mr Myles are deemed to be independent of the Investment Manager. Despite being on the Board for over nine years, the Board believes Mr Harris to be a challenging member of the Board and he continues to perform his role effectively. He is considered by the Board to be independent of the Investment Manager. Mr van Heesewijk is not independent by virtue of his employment by 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.

Under the Articles of Association, one-third of Directors will retire by rotation at each AGM and no Director shall serve a term of more than three years before re-election, in accordance with corporate governance principles. The Board has reviewed the appointment of those Directors retiring at the forthcoming AGM. Lord Lamont will retire by rotation and stand for re-election. In accordance with the Governance and AIC Codes, Mr Harris will offer himself for re-election (and do so on an annual basis), having served on the Board for over nine years. Mr van Heesewijk as a non-independent Director will also stand for re-election. The Board recommends that shareholders vote for the re-election of Lord Lamont, Mr Harris 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.

Senior Independent Director

The Company's Board of which Rt Hon. Lord Lamont is Chairman, comprises of three non-executive directors. No separate Senior Independent Director has been appointed to the Board as in the view of the Directors it is inappropriate to do so given the size and composition of the Board. Three out of four of the Directors are considered to be independent of the Investment Manager.

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 2013. All members Committee member was present at both meetings.

Statement on corporate governance (continued)

The primary responsibilities of the Audit Committee are: to review the effectiveness of the internal control environment of the Group and monitor adherence to best practice in corporate governance; to make recommendations to the Board in relation to the re-appointment of the Auditor and to approve their remuneration and terms of engagement; to review and monitor the Auditor's independence and objectivity and the scope and effectiveness of the audit process and to provide a forum through which the Group's Auditor reports to the Board. The Audit Committee also has responsibility for monitoring the integrity of the financial statements and accounting policies of the Group and for reviewing the Group'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 Group's Auditor, 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 Auditor each year.

The Committee has considered the independence and objectivity of the Auditor and it is satisfied in these respects that Hazlewoods LLP has fulfilled its obligations to the Group and its shareholders. No non-audit services were provided in the year. The Committee has advised that based on its assessment of their performance and independence, Hazlewoods LLP has fulfilled its obligations to the Group and its shareholders and on this basis recommends their reappointment as Auditor.

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 and reports its findings to the Board. Based on the Investment Manager's excellent performance, it has recommended to the Board that the Investment Manager's appointment continues. 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, with all independent Directors in attendance.

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 Group 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.

The Nominations Committee met once during the year ended 30 April 2013, with all independent Directors in attendance.

Statement on corporate governance (continued)

Remuneration Committee

Due to the small size of the Board, the Remuneration Committee comprises the entire Board, and is chaired by Mr Myles. The Committee meets 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 Group's affairs and remuneration levels generally within the investment trust sector.

Under the Listing Rules, the Governance 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 24 and 25 and in note 5 to the financial statements.

The Remuneration Committee did not meet during the year ended 30 April 2013.

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.

Conflicts of interest

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

The Board is responsible for considering Directors' requests for authorisation of conflicts and for deciding whether or not the conflict should be authorised. The factors to be considered will include whether the conflict could prevent the Director from properly performing his duties, whether it has, or could have, any impact on the Group 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 Group'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.

Statement on corporate governance (continued)

Internal control review

The Board is responsible for establishing and maintaining the Group'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 and the Group. This process ensures that the Board maintains a sound system of internal control to safeguard shareholders investments and the Group's assets. 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. No significant failings or weaknesses have been identified.

Internal control assessment process

Risk assessment and the review of internal controls is undertaken by the Board in the context of the Group'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 Group; 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.

Statement on corporate governance (continued)

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 Jarvis Investment Management Limited;
- 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 Group 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 Group does not have an internal audit function. All of the Group'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 Group to have an internal audit function. However, this need is reviewed annually.

Company Secretary

The Board has direct access to the advice and services of the Company Secretary, Capita Sinclair Henderson Limited, which is responsible for ensuring that Board and Committee procedures are followed and that applicable regulations are complied with. The Secretary is also responsible to the Board for ensuring timely delivery of information and reports and that the statutory obligations of the Group 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 Group have the opportunity to meet with the independent non-executive Directors of the Board in order to ensure that their views are understood. All shareholders are encouraged to attend the AGM, during which the Board and the Investment Manager are available to discuss issues affecting the Group and shareholders have the opportunity to address questions to the Investment Manager, the Board and the Chairmen 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 58. The Company always responds to letters from individual shareholders.

The Annual and Half Yearly Reports of the Group are prepared by the Board and its advisers to present a full and readily understandable review of the Group'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 Group's Auditor to audit certain disclosures provided. Where disclosures have been audited, they are indicated as such. The Auditor's opinion is included in their report on pages 27 and 28.

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 2014 and thereafter.

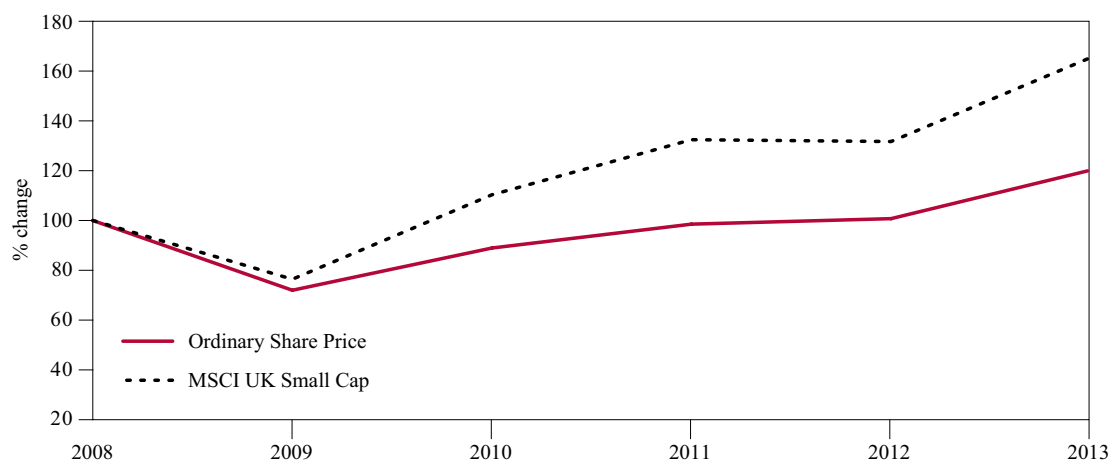
The fees of the non-executive Directors are determined within the limits set out in the Company's Articles of Association. Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits, as the Board does not consider such arrangements or benefits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

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. There is no notice period and no provision for compensation upon loss of office.

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 of the MSCI UK Small Cap Index. The MSCI UK Small Cap 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:

	2013	2012
	£	£
Lord Lamont (Chairman)	20,000	20,000
D Harris	20,000	20,000
H Myles	17,500	17,500
W van Heeswijk*	—	—

* Mr van Heeswijk has waived his entitlement to fees.

Approval

The Directors' remuneration report on pages 24 and 25 was approved by the Board on 8 July 2013.

On behalf of the Board

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 ('IFRSs') as adopted by the EU. Company law requires the Directors to prepare such financial statements in accordance with IFRSs and the Companies Act 2006.

Under company law the Directors must not approve the financial statements unless they are satisfied that they present fairly the financial position, financial performance and cash flows of the Group and the Company for that period.

In preparing each of the Group and the Company's financial statements, the Directors are required to:

- select suitable accounting policies in accordance with IAS 8: 'Accounting Policies, Changes in Accounting Estimates and Errors' and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group and the Company's financial position and financial performance;
- state that the Group and the Company have complied with IFRSs, as adopted by the EU subject to any material departures disclosed and explained in the financial statements; and
- make judgements and estimates that are reasonable and prudent.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Group's financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Report of the Directors (including Business review), Directors' remuneration report and Statement on corporate governance that comply with that law and those regulations, and for ensuring that the Annual Report includes information required by the Listing Rules of the Financial Conduct Authority.

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.

The Directors confirm that, to the best of their knowledge and belief:

- the financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Annual Report includes a fair review of the development and performance of the Group, together with a description of the principal risks and uncertainties faced.

On behalf of the Board of Directors

Lord Lamont of Lerwick

Chairman

8 July 2013

Independent Auditor's report

to the members of Small Companies Dividend Trust PLC

We have audited the financial statements of Small Companies Dividend Trust PLC for the year ended 30 April 2013 which comprise the Consolidated statement of comprehensive income, the Consolidated and Parent Company statement of changes in net equity, the Consolidated and Parent Company balance sheets, the Consolidated and Parent Company 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 EU.

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 26, 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 Group'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 Group's and of the Company's affairs as at 30 April 2013 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 EU; 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 Auditor's 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 of 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 16, 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 UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Scott Lawrence (Senior Statutory Auditor)

For and on behalf of Hazlewoods LLP, Statutory Auditor

Cheltenham

8 July 2013

Consolidated statement of comprehensive income

for the year ended 30 April 2013

	Note	2013			2012		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains/(losses) on investments at fair value through profit or loss	10	–	6,094	6,094	–	(699)	(699)
Investment income	2	1,420	–	1,420	1,167	–	1,167
Investment management fee	3	(69)	(208)	(277)	(55)	(166)	(221)
Recovery of VAT on administration and secretarial fees	4	–	–	–	45	–	45
Other expenses	4	(196)	(18)	(214)	(180)	–	(180)
Net return before finance costs and taxation		1,155	5,868	7,023	977	(865)	112
Finance costs	6	(15)	(384)	(399)	(78)	(235)	(313)
Net return before taxation		1,140	5,484	6,624	899	(1,100)	(201)
Taxation	7	–	–	–	–	–	–
Net return after taxation		1,140	5,484	6,624	899	(1,100)	(201)
Other comprehensive income							
Movement in fair value of cash flow hedge				52			205
Total comprehensive income for the year				6,676			4
		Revenue	Capital	Total	Revenue	Capital	Total
		pence	pence	pence	pence	pence	pence
Net return per:							
Ordinary share	8	7.02	33.75	40.77	5.53	(6.77)	(1.24)
Zero Dividend Preference share	8	–	4.00	4.00	–	–	–

The total column of this statement is the statement of comprehensive income of the Group prepared in accordance with IFRS as adopted by the EU. All revenue and capital items in the above statement derive from continuing operations. No operations were acquired or discontinued during the year. All of the net return for the period and the total comprehensive income for the period is attributable to the shareholders of the Group. The supplementary revenue and capital return columns are presented for information purposes as recommended by the Statement of Recommended Practice issued by the AIC.

The notes on pages 33 to 53 form part of these financial statements.

Consolidated and Parent Company statement of changes in net equity

for the year ended 30 April 2013

	Note	Share capital £'000	Share premium account £'000	Capital reserve £'000	Hedge reserve £'000	Revenue reserve £'000	Total £'000
Year ended 30 April 2013							
30 April 2012		4,063	11,917	2	(52)	1,250	17,180
Total comprehensive return for the year		–	–	5,484	52	1,140	6,676
Expenses of Zero Dividend Preference share issue		–	–	(213)	–	–	(213)
Transactions with owners:							
Dividends paid	9	–	–	–	–	(1,064)	(1,064)
30 April 2013		<u>4,063</u>	<u>11,917</u>	<u>5,273</u>	<u>–</u>	<u>1,326</u>	<u>22,579</u>
Year ended 30 April 2012							
30 April 2011		4,063	11,917	1,102	(257)	1,383	18,208
Total comprehensive return for the year		–	–	(1,100)	205	899	4
Transactions with owners:							
Dividends paid	9	–	–	–	–	(1,032)	(1,032)
30 April 2012		<u>4,063</u>	<u>11,917</u>	<u>2</u>	<u>(52)</u>	<u>1,250</u>	<u>17,180</u>

The notes on pages 33 to 53 form part of these financial statements.

Consolidated and Parent Company balance sheets

as at 30 April 2013

	Note	Group* 2013 £'000	Company 2013 £'000	Company 2012 £'000
Non-current assets				
Investments at fair value through profit or loss	10	31,318	31,318	22,120
Investments in subsidiary	12	–	13	–
		<u>31,318</u>	<u>31,331</u>	<u>22,120</u>
Current assets				
Trade and other receivables	13	194	194	205
Cash and cash equivalents		39	39	–
		<u>233</u>	<u>233</u>	<u>205</u>
Total assets		<u>31,551</u>	<u>31,564</u>	<u>22,325</u>
Current liabilities				
Bank overdraft		–	–	(950)
Trade and other payables	14	(132)	(145)	(130)
Derivative financial instruments	16	–	–	(65)
		<u>(132)</u>	<u>(145)</u>	<u>(1,145)</u>
Total assets less current liabilities		<u>31,419</u>	<u>31,419</u>	<u>21,180</u>
Non-current liabilities				
Bank loan	15	–	–	(4,000)
Zero Dividend Preference shares	17	(8,840)	–	–
Loan from subsidiary	18	–	(8,840)	–
		<u>(8,840)</u>	<u>(8,840)</u>	<u>(4,000)</u>
Total liabilities		<u>(8,972)</u>	<u>(8,985)</u>	<u>(5,145)</u>
Net assets		<u>22,579</u>	<u>22,579</u>	<u>17,180</u>
Represented by:				
Share capital	19	4,063	4,063	4,063
Share premium account	20	11,917	11,917	11,917
Capital reserve	20	5,273	5,273	2
Hedge reserve	20	–	–	(52)
Revenue reserve	20	1,326	1,326	1,250
Equity shareholders' funds		<u>22,579</u>	<u>22,579</u>	<u>17,180</u>

The notes on pages 33 to 53 form part of these financial statements.

* The subsidiary was incorporated on 13 July 2012 and therefore no comparatives for the Group are shown for the year ended 30 April 2012.

These financial statements were approved by the Board of Small Companies Dividend Trust plc and authorised for issue on 8 July 2013.

Lord Lamont of Lerwick

Chairman

8 July 2013

Company Registered Number: 3749536

Consolidated and Parent Company statement of cash flows

for the year ended 30 April 2013

	Note	2013 £'000	2012 £'000
Operating activities			
Investment income received		1,432	1,162
Interest income received		–	6
Investment management fee paid		(254)	(222)
Administration and secretarial fees paid		(60)	(58)
Refund of VAT paid on administration and secretarial fees		–	45
Other cash payments		(146)	(119)
Cash generated from operations		972	814
Loan interest paid		(101)	(352)
Net cash inflow from operating activities	22	871	462
Investing activities			
Purchases of investments		(7,643)	(5,703)
Sales of investments		4,538	5,570
Net cash outflow from investing activities		(3,105)	(133)
Financing activities			
Issue of Zero Dividend Preference shares		8,500	–
Expenses of Zero Dividend Preference share issue		(213)	–
Repayment of bank loan		(4,000)	–
Dividends paid		(1,064)	(1,032)
Net cash inflow/(outflow) from financing activities		3,223	(1,032)
Increase/(decrease) in cash and cash equivalents for year	23	989	(703)
Cash and cash equivalents at start of year	24	(950)	(247)
Cash and cash equivalents at end of year	24	39	(950)
Cash and cash equivalents at 30 April comprise:			
Cash at bank		39	–
Bank overdraft		–	(950)
		39	(950)

The notes on pages 33 to 53 form part of these financial statements.

Notes to the financial statements

as at 30 April 2013

1 ACCOUNTING POLICIES

Small Companies Dividend Trust PLC is a company domiciled in the UK. The consolidated financial statements for the Group for the year ended 30 April 2013 comprise the Company and its subsidiary, SCZ (together referred to as the 'Group').

Basis of preparation

The consolidated financial statements of the Group and the financial statements of the Company have been prepared in conformity with International Financial Reporting Standards ('IFRSs') issued by the International Accounting Standards Board (as adopted by the EU) 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.

As this is the first reporting period since the incorporation of SCZ on 13 July 2012, no comparative figures for the Group have been shown.

The accounting policies adopted are consistent with those of the previous financial year and with the new accounting policies detailed below with regards to the new subsidiary and the Zero Dividend Preference share issue.

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

- IAS 1 Presentation of Financial Statements – Amendments to revise the way other comprehensive income is presented (effective 1 July 2012)
- IAS 32 Financial Instruments: Presentation – Amendments to application guidance on the offsetting of financial assets and financial liabilities (effective 1 January 2014)
- IFRS 7 Financial Instruments: Disclosures – Amendments enhancing disclosures about offsetting of financial assets and financial liabilities (effective 1 January 2013)
- IFRS 7 Financial Instruments: Disclosures – Amendments requiring disclosures about the initial application of IFRS 9 (effective 1 January 2015 or otherwise when IFRS 9 is first applied)
- IFRS 9 Financial Instruments – Classification and measurement of financial assets (effective 1 January 2015)
- IFRS 9 Financial Instruments – Accounting for financial liabilities and de-recognition (effective 1 January 2015)
- IFRS 12 Disclosure of Interests in Other Entities – Disclosure of information to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows (effective 1 January 2013)
- IFRS 13 Fair Value Measurement – Replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard (effective 1 January 2013)

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods.

Notes to the financial statements (continued)

as at 30 April 2013

1 ACCOUNTING POLICIES (continued)

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its wholly owned subsidiary undertaking, SCZ, drawn up to the same accounting date.

The subsidiary is consolidated from the date of its incorporation, being the date on which the Company obtained control, and will continue to be consolidated until the date that such control ceases. Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities and is achieved through direct or indirect ownership of voting rights. The financial statements of the subsidiary are prepared for the same reporting year as the Company, using consistent accounting policies. All inter-company balances and transactions, including unrealised profits arising from them, are eliminated.

As permitted by Section 408 of the Companies Act 2006, the Company has not presented its own Statement of comprehensive income. The amount of the Company's return for the financial period dealt with in the financial statements of the Group is a profit of £6,676,000.

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 by the Association of Investment Companies 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 Group is engaged in a single segment of business, being investment business. The Group only invests in companies listed in the UK.

Investments

All investments held by the Group are recorded at 'fair value through profit or loss'. Investments are initially recognised at cost, being the fair value of the consideration given.

After initial recognition, investments are measured at fair value, with unrealised gains and losses on investments and impairment of investments recognised in the Consolidated 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.

Notes to the financial statements (continued)

as at 30 April 2013

1 ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting

It is the Company's policy not to trade in derivative financial instruments. However, the Company utilised interest rate swaps as cash flow hedges to mitigate its exposure to interest rate changes on its bank loan which was subject to a variable rate of interest. As at 30 April 2013 the Company had repaid its loan and had no interest rate swap in place.

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 Group 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 Group'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 Consolidated 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;
- 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.

Notes to the financial statements (continued)

as at 30 April 2013

1 ACCOUNTING POLICIES (continued)

The investment management fees, bank interest and all other expenses are allocated to revenue with the exception of 75% (2012: 75%) of the Investment Manager's fee, 75% (2012: 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 from the investment portfolio, in the form of income and capital gains respectively.

The operating expenses of the subsidiary are borne by the Company and taken 100% to capital.

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 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 Consolidated statement of comprehensive income over the period of the borrowings on an effective interest basis.

Zero Dividend Preference shares

Shares issued by the subsidiary are treated as a liability of the Group, and are shown in the Balance sheet at their redemption value at the Balance sheet date. The appropriations in respect of the Zero Dividend Preference shares necessary to increase the subsidiary's liabilities to the redemption values are allocated to capital in the Consolidated statement of comprehensive income. This treatment reflects the Board's long-term expectations that the entitlements of the Zero Dividend Preference shareholders will be satisfied out of gains arising on investments held primarily for capital growth.

Share issue costs

Costs incurred directly in relation to the issue of shares in the subsidiary were borne by the Company and taken 100% to capital.

Taxation

There is no charge to UK income tax as the Group'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 Group 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 Group after the Balance sheet date have not been recognised as a liability of the Group at the Balance sheet date.

Notes to the financial statements (continued)

as at 30 April 2013

2 INCOME	2013	2012
	£'000	£'000
Income from listed investments		
UK net dividend income	1,200	1,045
Unfranked foreign dividend income	220	116
	<u>1,420</u>	<u>1,161</u>
Other income		
Interest on VAT refund	–	6
	<u>1,420</u>	<u>1,167</u>
Total income		
	<u>1,420</u>	<u>1,167</u>
Total income comprises:		
Dividends	1,420	1,161
Interest	–	6
	<u>1,420</u>	<u>1,167</u>

3 INVESTMENT MANAGEMENT FEE	2013			2012		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment management fee	69	208	277	55	166	221
	<u>69</u>	<u>208</u>	<u>277</u>	<u>55</u>	<u>166</u>	<u>221</u>

At 30 April 2013 there were amounts outstanding of £79,000 (2012: £56,000).

4 OTHER EXPENSES	2013	2012
	£'000	£'000
Administration and secretarial fees	60	58
Directors' remuneration (note 5)	58	58
Auditor's remuneration:		
audit services*	20	16
Insurance	6	6
Other expenses*	70	42
Recovery of VAT on administration and secretarial fees	–	(45)
	<u>214</u>	<u>135</u>
Subsidiary operating costs taken 100% to capital	(18)	–
	<u>196</u>	<u>135</u>

* The above amounts include irrecoverable VAT where applicable.

Notes to the financial statements (continued)

as at 30 April 2013

5 DIRECTORS' REMUNERATION

	2013	2012
	£	£
Total fees	57,500	57,500
Remuneration to Directors		
Lord Lamont (Chairman)	20,000	20,000
D Harris	20,000	20,000
H Myles	17,500	17,500
W van Heesewijk*	–	–

* Mr van Heesewijk has waived his entitlement to fees.

6 FINANCE COSTS

	2013			2012		
	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Interest payable on bank overdraft and bank loan	18	54	72	91	273	364
Movement in fair value of ineffective element of interest rate swap	(3)	(10)	(13)	(13)	(38)	(51)
Appropriations in respect of Zero Dividend Preference shares	–	340	340	–	–	–
	15	384	399	78	235	313

7 TAXATION

	2013	2012
	£'000	£'000
Based on the revenue return for the year		
Current tax – withholding tax on foreign dividend income	–	–

Notes to the financial statements (continued)

as at 30 April 2013

7 TAXATION (continued)

The current tax charge for the year is lower than the standard rate of corporation tax in the UK of 24% to 31 March 2013 and 23% from 1 April 2013. The differences are explained below:

	2013			2012		
	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Return on ordinary activities before taxation	1,140	5,484	6,624	899	(1,100)	(201)
Theoretical corporation tax at 23.92% (2012: 25.83%)	273	1,312	1,585	232	(284)	(52)
Effects of:						
Capital items not taxable	–	(1,376)	(1,376)	–	181	181
UK and foreign dividends which are not taxable in the UK	(340)	–	(340)	(300)	–	(300)
Excess expenses in the year	67	64	131	68	103	171
Actual current tax charged to the revenue account	–	–	–	–	–	–

The Group has unrelieved excess expenses of £17,902,000 (2012: £17,353,000). It is unlikely that the Group 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 revenue on ordinary activities after taxation of £1,140,000 (2012: £899,000) and on 16,250,000 (2012: 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 the capital profit of £5,484,000 (2012: capital loss of £1,100,000) and on 16,250,000 (2012: 16,250,000) Ordinary shares, being the weighted average number of Ordinary shares in issue during the year.

Zero Dividend Preference shares

Capital return per Zero Dividend Preference share is based on allocations from the Company of £340,000 and on 8,500,000 Zero Dividend Preference shares, being the weighted average number of Zero Dividend Preference shares in issue during the year.

Notes to the financial statements (continued)

as at 30 April 2013

9 DIVIDENDS

	2013 £'000	2012 £'000
Declared and paid per Ordinary share		
Fourth interim dividend for the year ended 30 April 2012 of 2.35p (2011: 2.30p)	382	374
First interim dividend of 1.40p (2012: 1.35p)	227	219
Second interim dividend of 1.40p (2012: 1.35p)	227	219
Third interim dividend of 1.40p (2012: 1.35p)	228	220
	<u>1,064</u>	<u>1,032</u>
Declared and paid per Ordinary share*		
Fourth interim dividend for the year ended 30 April 2013 of 2.40p (2012: 2.35p)	390	382

* Dividend paid subsequent to the year end.

Notes to the financial statements (continued)

as at 30 April 2013

10 INVESTMENTS – Group and Company

	Listed	AIM	2013 Total
Year ended 30 April 2013	£'000	£'000	£'000
Opening book cost	15,873	9,909	25,782
Opening investment holding losses	(2,010)	(1,652)	(3,662)
Opening valuation	13,863	8,257	22,120
Movements in the year:			
Purchases at cost	5,264	2,378	7,642
Disposals:			
Proceeds	(3,481)	(1,057)	(4,538)
Net realised gains/(losses) on disposals	816	(1,658)	(842)
Transfers from AIM to Listed	232	(232)	–
Movement in investment holding losses	3,405	3,531	6,936
Closing valuation	20,099	11,219	31,318
Closing book cost	18,704	9,340	28,044
Closing investment holding gains	1,395	1,879	3,274
	20,099	11,219	31,318
Realised gains/(losses) on disposals	816	(1,658)	(842)
Movement in investment holding losses	3,405	3,531	6,936
Gains on investments	4,221	1,873	6,094

Notes to the financial statements (continued)

as at 30 April 2013

10 INVESTMENTS – Group and Company (continued)

	Listed	AIM	2012
Year ended 30 April 2012	£'000	£'000	Total
			£'000
Opening book cost	15,829	9,504	25,333
Opening investment holding losses	(719)	(1,925)	(2,644)
Opening valuation	15,110	7,579	22,689
Movements in the year:			
Purchases at cost	4,300	1,335	5,635
Disposals:			
Proceeds	(4,154)	(1,351)	(5,505)
Net realised (losses)/gains on disposals	(102)	421	319
Movement in investment holding losses	(1,291)	273	(1,018)
Closing valuation	13,863	8,257	22,120
Closing book cost	15,873	9,909	25,782
Closing investment holding losses	(2,010)	(1,652)	(3,662)
	13,863	8,257	22,120
Realised (losses)/gains on disposals	(102)	421	319
Movement in investment holding losses	(1,291)	273	(1,018)
(Losses)/gains on investments	(1,393)	694	(699)

Transaction costs

During the year the Group incurred transaction costs of £70,000 (2012: £53,000) and £15,000 (2012: £20,000) on purchases and sales of investments respectively. These amounts are included in losses on investments, as disclosed in the Consolidated statement of comprehensive income.

Notes to the financial statements (continued)

as at 30 April 2013

11 SIGNIFICANT INTERESTS

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

Name of undertaking	Class of share	30 April 2013	
			% held
Stadium Group	Ordinary		4.06
RTC Group	Ordinary		3.48
Sanderson Group	Ordinary		3.47
Chamberlin	Ordinary		3.33
Macfarlane Group	Ordinary		3.04

12 INVESTMENT IN SUBSIDIARY

The Company owns the whole of the issued ordinary share capital of SCZ, especially formed for the issuing of Zero Dividend Preference shares, which is incorporated and registered in England and Wales, under company number: 8142169.

13 TRADE AND OTHER RECEIVABLES

	Group 2013 £'000	Company 2013 £'000	Company 2012 £'000
Dividends receivable	189	189	201
Prepayments and accrued income	5	5	4
	<u>194</u>	<u>194</u>	<u>205</u>

14 TRADE AND OTHER PAYABLES

	Group 2013 £'000	Company 2013 £'000	Company 2012 £'000
Purchases of investments for future settlement	–	–	1
Trade and other payables	132	132	129
Loan from subsidiary undertaking	–	13	–
	<u>132</u>	<u>145</u>	<u>130</u>

15 BANK LOAN

	Group 2013 £'000	Company 2013 £'000	Company 2012 £'000
Bank loan	–	–	4,000

The loan was repaid in full on 31 August 2012.

Notes to the financial statements (continued)

as at 30 April 2013

16 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. The Company entered into an interest rate swap agreement (£5 million fixed at 6.2475%) that expired on 10 July 2012. Prior to this date the Company had reduced the loan drawn to £4 million and there was a mismatch with the two swap transactions. The £4 million loan represented 80% of the £5 million swap. Therefore 20% of the cost of the swap is charged to income with the remaining 80% to equity. At 30 April 2012 the fair value of the interest rate swap designated as a cash flow hedge was £65,000.

17 ZERO DIVIDEND PREFERENCE SHARES

On 28 August 2012, SCZ issued 8,500,000 Zero Dividend Preference shares at 100p per share and with net proceeds of £8.3 million. The expenses of the placing were borne by the Company. The Zero Dividend Preference shares each have an initial capital entitlement of 100p per share, growing by an annual rate of 6% compounded daily to 136.70p on 8 January 2018, a total of £11,620,000. The accrued entitlement as per the Articles of Association of SCZ at 30 April 2013 was 104.00p per share, being £8,840,000 in total, and the total amount accrued for the year of £340,000 has been charged to capital.

18 SECURED LOAN

Pursuant to a loan agreement between SCZ and the Company, SCZ has lent the gross proceeds of £8,500,000, raised from the placing on 28 August 2012 of 8,500,000 Zero Dividend Preference shares at 100p, to the Company. The loan is non-interest bearing and is repayable three business days before the Zero Dividend Preference share redemption date of 8 January 2018 or, if required by SCZ, at any time prior to that date in order to repay the Zero Dividend preference share entitlement. The funds are to be managed in accordance with the investment policy of the Company.

The loan is secured by way of a floating charge on the Company's assets under a debenture entered into between the Company and SCZ dated 1 August 2012.

A contribution agreement between the Company and SCZ has also been made whereby the Company will undertake to contribute such funds as would ensure that SCZ will have in aggregate sufficient assets on 8 January 2018 to satisfy the final capital entitlement of the Zero Dividend Preference shares. At 30 April 2013 the contribution due from the Company to cover the accrued entitlement was £340,000.

	Company	Company
	2013	2012
	£'000	£'000
Value at 1 May	–	–
Loan issued in year	8,500	–
Contribution to accrued capital entitlement of Zero Dividend Preference shares	340	–
	<hr/>	<hr/>
Value at 30 April	8,840	–
	<hr/>	<hr/>

Notes to the financial statements (continued)

as at 30 April 2013

19 SHARE CAPITAL

	2013	2012
	£'000	£'000
Issued, allotted and fully paid		
16,250,000 (2012: 16,250,000) Ordinary shares of 25p each	<u>4,063</u>	<u>4,063</u>

For details regarding the issue of Zero Dividend Preference shares by SCZ please see note 17.

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, holders of Zero Dividend Preference shares issued by SCZ are entitled to a payment of an amount equal to 100p per share, increased daily from 28 August 2012 at such a compound rate as will give an entitlement to 136.70p for each Zero Dividend Preference share at 8 January 2018, £11,620,000 in total.

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 rateably according to the amounts paid or credited as paid up on the Ordinary shares held by them respectively.

Voting

Each holder of Ordinary shares on a show of hands will have one vote and on a poll will have one vote for each Ordinary share held. Each holder of Zero Dividend Preference shares on a show of hands will have one vote at meetings where Zero Dividend Preference shareholders are entitled to vote and on a poll will have one vote for every Zero Dividend Preference share held.

Duration

Under the Parent Company's Articles of Association, the Directors are required to convene a general meeting of the Company to be held in October 2017 or a date which is either four months before or four months after this date so as to align the vote with any timetable for a further issue of zero dividend preference shares or to save costs by proposing the Continuation Resolution (as defined below) at the annual general meeting or some other general meeting of the Company ('the First GM'), 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 voluntary liquidation, unitisation or other reorganisation of the Company) ('the Restructuring Resolution') at a general meeting of the Company to be convened not more than four months after the date of the First GM (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 a general meeting not more than four months after the date of the First GM (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 and the votes taken on such resolution shall be on a poll.

Notes to the financial statements (continued)

as at 30 April 2013

20 RESERVES – Group and Company

	Share premium account £'000	Capital reserve £'000	Hedge reserve £'000	Revenue reserve £'000
At 1 May 2012	11,917	2	(52)	1,250
Net return on realisation of investments	–	(842)	–	–
Movement in investment holding losses	–	6,936	–	–
Costs charged to capital	–	(270)	–	–
Expenses of Zero Dividend Preference share issue	–	(213)	–	–
Appropriations in respect of Zero Dividend Preference shares	–	(340)	–	–
Net return after dividends for the year retained	–	–	–	76
Movement in fair value of cash flow hedge	–	–	52	–
At 30 April 2013	11,917	5,273	–	1,326
At 1 May 2011	11,917	1,102	(257)	1,383
Net return on realisation of investments	–	319	–	–
Movement in investment holding losses	–	(1,018)	–	–
Costs charged to capital	–	(401)	–	–
Net return after dividends for the year retained	–	–	–	(133)
Movement in fair value of cash flow hedge	–	–	205	–
At 30 April 2012	11,917	2	(52)	1,250

21 NET ASSET VALUE PER SHARE

The net asset value per share and the net assets attributable to the Ordinary shareholders and Zero Dividend Preference shareholders are as follows:

	Net asset value per share 2013 pence	Net assets attributable to shareholders 2013 £'000	Net asset value per share 2012 pence	Net assets attributable to shareholders 2012 £'000
Ordinary shares	138.95	22,579	105.72	17,180
Zero Dividend Preference shares	104.00	8,840	–	–

The net asset value per Ordinary share is calculated on 16,250,000 (2012: 16,250,000) Ordinary shares, being the number of Ordinary shares in issue at the year end.

The net asset value per Zero Dividend Preference share is calculated on 8,500,000 Zero Dividend Preference shares, being the number of Zero Dividend Preference shares in issue at the year end.

Notes to the financial statements (continued)

as at 30 April 2013

22 RECONCILIATION OF NET RETURN BEFORE AND AFTER TAXATION TO NET CASH FLOW FROM OPERATING ACTIVITIES – Group and Company

	2013 £'000	2012 £'000
Net return before taxation	6,624	(201)
Taxation	–	–
Net return after taxation	<u>6,624</u>	<u>(201)</u>
Net capital return	(5,484)	1,100
Movement in fair value of ineffective element of interest rate swap	(13)	(51)
Decrease in receivables	11	5
Increase in payables	3	10
Interest and expenses charged to the capital reserve	(270)	(401)
Net cash inflow from operating activities	<u>871</u>	<u>462</u>

23 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET CASH/(DEBT) – Group and Company

	2013 £'000	2012 £'000
Increase/(decrease) in cash in year	989	(703)
Repayment of bank loan	4,000	–
Change in net cashflow	4,989	(703)
Net debt at 1 May	(4,950)	(4,247)
Net cash/(debt) at 30 April	<u>39</u>	<u>(4,950)</u>

24 ANALYSIS OF CHANGES IN NET (DEBT)/CASH – Group and Company

	At 1 May 2012 £'000	Cash flows £'000	At 30 April 2013 £'000
Cash at bank	–	39	39
Bank overdraft	(950)	950	–
	<u>(950)</u>	<u>989</u>	<u>39</u>
Debt due after more than one year	(4,000)	4,000	–
	<u>(4,950)</u>	<u>4,989</u>	<u>39</u>

Notes to the financial statements (continued)

as at 30 April 2013

25 RELATED PARTY TRANSACTIONS

Under the terms of an agreement dated 30 April 2006 (effective from 1 December 2005), the Company 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 15 and in note 3 to the financial statements.

Chelverton contributed £100,000 towards the issue costs relating to the Zero Dividend Preference share issue.

26 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES

Objectives, policies and strategies

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

The Group finances its operations through Zero Dividend Preference shares issued by SCZ and equity.

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

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

In pursuing its investment objective, the Group is exposed to a variety of risks that could result in either a reduction in the Group'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 Group of holding such items, is given below.

Market risk

Market risk arises mainly from uncertainty about future prices of financial instruments used in the Group's business. It represents the potential loss the Group 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 reporting of relevant information from the Investment Manager. Investment performance is reviewed at each Board meeting.

Notes to the financial statements (continued)

as at 30 April 2013

26 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES (continued)

Market price risk (continued)

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

	2013 £'000	2012 £'000
Fair value through profit or loss investments	<u>31,318</u>	<u>22,120</u>

Sensitivity analysis

A 10% increase in the market value of investments at 30 April 2013 would have increased net assets by £3,132,000 (2012: £2,212,000). 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 Group's assets are denominated in Sterling and accordingly the only currency exposure the Group 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.

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

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.

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 2013			
Cash and cash equivalents	39	–	39
Total exposure to interest rates	<u>39</u>	<u>–</u>	<u>39</u>
30 April 2012			
Cash and cash equivalents and bank overdraft	(950)	–	(950)
Bank loan	–	(4,000)	(4,000)
Total exposure to interest rates	<u>(950)</u>	<u>(4,000)</u>	<u>(4,950)</u>

Notes to the financial statements (continued)

as at 30 April 2013

26 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES (continued)

Interest rate risk (continued)

The loan facility of £4 million was repaid on 31 August 2012, therefore the Group no longer has any interest rate risk associated to variable bank borrowings.

Credit risk

Credit risk is the risk of financial loss to the Group 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.

Listed investments are held by Jarvis Investment Management Limited 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 Group'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 Group has delivered in its obligations before any transfer of cash or securities away from the Group 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 2013 was £31,551,000 (2012: £22,325,000). The calculation is based on the Group's credit risk exposure as at 30 April 2013 and this may not be representative of the year as a whole.

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

Liquidity risk

The majority of the Group'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.

Notes to the financial statements (continued)

as at 30 April 2013

26 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES (continued)

Financial instruments by category

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

30 April 2013

	At cost £'000	Loans and receivables £'000	Assets at fair value through profit or loss £'000	Total £'000
Assets as per Balance sheet				
Investments	–	–	31,318	31,318
Trade and other receivables	–	194	–	194
Cash and cash equivalents	39	–	–	39
Total	39	194	31,318	31,551
Liabilities as per Balance sheet				
Trade and other payables	132	–	–	132
Total	132	–	–	132

30 April 2012

	At 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	–	–	22,120	–	22,120
Trade and other receivables	–	205	–	–	205
Total	–	205	22,120	–	22,325
Liabilities as per Balance sheet					
Trade and other payables	130	–	–	–	130
Bank loan	4,000	–	–	–	4,000
Bank overdraft	950	–	–	–	950
Derivative financial instruments	–	–	–	65	65
Total	5,080	–	–	65	5,145

Notes to the financial statements (continued)

as at 30 April 2013

26 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES (continued)

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 (i.e. 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).
- 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. 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.

Notes to the financial statements (continued)

as at 30 April 2013

26 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES (continued)

IFRS 7 hierarchy (continued)

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 investments.

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 was designated Level 3. This was due to the fair value obtained being reliant upon inputs obtained from brokers that were indicative and could not easily be corroborated with observable market data.

The following table presents the movement in the Level 3 instrument for the year ended 30 April 2013:

	Ineffective element (20%) to income £'000	Effective element (80%) to equity (hedge reserve) £'000	Total £'000
30 April 2012	13	52	65
Movement in year	(13)	(52)	(65)
30 April 2013	–	–	–

Shareholder information

Financial calendar

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

Share prices and performance information

The Company's Ordinary shares and the Zero Dividend Preference shares issued through SCZ are listed on the London Stock Exchange.

The net asset values are announced weekly to the London Stock Exchange and published monthly via the AIC.

Information about the Group 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 and the Zero Dividend Preference shares are 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.

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 entitlements of the Zero Dividend Preference and Preference shares were repaid.

Group structure

The Company has in issue one class of Ordinary share. In addition, it has a new wholly owned subsidiary, SCZ, through which Zero Dividend Preference shares have been issued. The new subsidiary was incorporated on 13 July 2012 and has a capital structure comprising unlisted ordinary shares and Zero Dividend Preference shares listed on the Official List and traded on the London Stock Exchange. SCZ was incorporated specifically for the issue of Zero Dividend Preference shares. On 28 August 2012, SCZ issued 8,500,000 Zero Dividend Preference shares at 100p per share and with net proceeds of £8.3 million. The expenses of the placing were borne by the Company. Pursuant to a loan agreement between SCZ and the Company, SCZ has lent the proceeds of the placing to the Company. The loan is non-interest bearing and is repayable three business days before the Zero Dividend Preference share redemption date of 8 January 2018 or, if required by SCZ, at any time prior to that date in order to repay the Zero Dividend Preference share entitlement. The funds are to be managed in accordance with the investment policy of the Company.

A contribution agreement between the Company and SCZ has also been made whereby the Company will undertake to contribute such funds as will ensure that SCZ will have in aggregate sufficient assets on 8 January 2018 to satisfy the final capital entitlement of the Zero Dividend Preference shares.

Total net assets and market capitalisation at year end

As at 30 April 2013, the Company had a market capitalisation of £20,881,000 (2012: £15,925,000) and total net assets amounted to £22,579,000 (2012: £17,180,000).

Management fee

The fee payable to the Investment Manager is 1% of the combined gross assets of the Group.

Capital structure

Details of share structure and entitlements and voting rights of each class can be found on page 56.

ISA status

The Company's Ordinary shares are qualifying investments for Individual Savings Accounts ('ISAs') as are the ZDP shares of SCZ.

Registered in England

No. 3749536

A member of the Association of Investment Companies

Capital structure

Small Companies Dividend Trust PLC ('the Company')

The Company has in issue one class of Ordinary share. In addition, it has a wholly owned subsidiary, Small Companies ZDP PLC, through which Zero Dividend Preference shares have been issued.

Ordinary shares of 25p each ('Ordinary shares') – 16,250,000 in issue

Dividends

Holders of Ordinary shares are entitled to dividends.

Capital

On a winding-up of the Company, Ordinary shareholders will be entitled to all surplus assets of the Company available after payment of the Company's liabilities, including the capital entitlement of the Zero Dividend Preference shares.

Voting

Each holder on a show of hands will have one vote and on a poll will have one vote for each Ordinary share held.

Small Companies ZDP PLC ('SCZ')

Ordinary shares of 100p each ('ordinary shares') – 50,000 in issue (partly paid up as to 25p each)

The ordinary shares are owned by the Company. References to Ordinary shares within this Annual Report are to the Ordinary shares of Small Companies Dividend Trust PLC.

Capital

Following payment of any liabilities and the capital entitlement to the Zero Dividend Preference shareholders, ordinary shareholders are entitled to any surplus assets of SCZ.

Voting

Each holder on a show of hands will have one vote and on a poll will have one vote for each ordinary share held.

Zero Dividend Preference shares of 100p each – 8,500,000 in issue

Dividends

Holders of Zero Dividend Preference shares are not entitled to dividends.

Capital

On a winding up of SCZ, after the satisfaction of prior ranking creditors and subject to sufficient assets being available, Zero Dividend Preference shareholders are entitled to an amount equal to 100p share increased daily from 28 August 2012 at such compound rate as will give an entitlement to 136.7p per share at 8 January 2018.

Voting

Each holder of Zero Dividend Preference shares on a show of hands will have one vote at meetings where Zero Dividend Preference shareholders are entitled to vote and on a poll will have one vote for every Zero Dividend Preference share held.

Holders of Zero Dividend Preference shares are not entitled to attend, speak or vote at general meetings unless the business of the meeting includes a resolution to vary, modify or abrogate the rights attached to the Zero Dividend Preference shares.

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.

Ongoing charges

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 average quarterly net assets.

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) David Harris William van Heesewijk Howard Myles
Investment Manager	Chelverton Asset Management Limited 12b George Street Bath BA1 2EH Tel: 01225 483030
Secretary and Registered Office	Capita Sinclair Henderson Limited Beaufort House 51 New North Road Exeter EX4 4EP Tel: 01392 412122
Registrar and Transfer Office	Share Registrars Limited Suite E First Floor 9 Lion and Lamb Yard Farnham Surrey GU9 7LL Tel: 01252 821 390 www.shareregistrars.uk.com
Auditors	Hazlewoods LLP Windsor House Bayshill Road Cheltenham GL50 3AT
Custodian	Jarvis Investment Management Limited 78 Mount Ephraim Tunbridge Wells Kent TN4 8BS

Small Companies Dividend Trust PLC

Notice of Annual General Meeting

This document is important and requires your immediate attention. If you are in any doubt as to what action you should take, you are recommended to seek your own financial advice from your stockbroker or other independent adviser authorised under the Financial Services and Markets Act 2000 immediately.

If you have sold or otherwise transferred all of your shares in Small Companies Dividend Trust Plc, please forward this document as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

NOTICE IS HEREBY GIVEN that the ANNUAL GENERAL MEETING of the Company will be held at 11.00 am on Wednesday, 18 September 2013 at the offices of the Association of Investment Companies, 9th Floor, 24 Chiswell Street, London EC1Y 4YY for the following purposes:

Ordinary Business – Resolutions 1-6 will be proposed as ordinary resolutions

- 1 To receive the Report of the Directors and the audited financial statements for the year ended 30 April 2013.
- 2 To receive and approve the Directors' remuneration report for the year ended 30 April 2013.
- 3 To re-elect Lord Lamont as a Director.
- 4 To re-elect Mr Harris as a Director.
- 5 To re-elect Mr van Heesewijk as a Director.
- 6 To re-appoint Hazlewoods LLP as Auditor and to authorise the Directors to determine its 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 to 10 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 2013, 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 2014, 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) or sell shares held in Treasury (within the meaning of Section 560(3) 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

Notice of Annual General Meeting (continued)

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; and

- b) to the allotment (otherwise than pursuant to paragraph (a) 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 2013

and shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2014, 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.

- 10 THAT a general meeting other than an annual general meeting may be called on not less than 14 clear days' notice.

By order of the Board
Capita Sinclair Henderson Limited
Secretary
8 July 2013

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

Notice of Annual General Meeting (continued)

Explanatory notes to the notice of meeting

Ordinary shareholders 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/she 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 that Note can only be exercised by registered members of the Company.*
4. *As at 5 July 2013 (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. *The Company specifies that only those Ordinary shareholders registered on the Register of Members of the Company as at 11.00 am on 16 September 2013 (or in the event that the meeting is adjourned, only those Ordinary shareholders registered on the Register of Members of the Company as at 11.00 am 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 Ordinary 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:*

Notice of Annual General Meeting (continued)

- 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.
10. Members satisfying the thresholds in Section 338 of the Companies Act 2006 may require the Company to give, to members of the Company entitled to receive notice of the Annual General Meeting, notice of a resolution which those members intend to move (and which may properly be moved) at the Annual General Meeting. A resolution may properly be moved at the Annual General Meeting unless (i) it would, if passed, be ineffective (whether by reason of any inconsistency with any enactment or the Company's constitution or otherwise); (ii) it is defamatory of any person; or (iii) it is frivolous or vexatious. A request made pursuant to this right may be in hard copy or electronic form, must identify the resolution of which notice is to be given, must be authenticated by the person(s) making it and must be received by the Company not later than six weeks before the date of the Annual General Meeting.
11. Members satisfying the thresholds in Section 338A of the Companies Act 2006 may request the Company to include in the business to be dealt with at the Annual General Meeting any matter (other than a proposed resolution) which may properly be included in the business at the Annual General Meeting. A matter may properly be included in the business at the Annual General Meeting unless (i) it is defamatory of any person or (ii) it is frivolous or vexatious. A request made pursuant to this right may be in hard copy or electronic form, must identify grounds for the request, must be authenticated by the person(s) making it and must be received by the Company not later than six weeks before the date of the Annual General Meeting.
12. The Annual Report incorporating this notice of Annual General Meeting and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this notice will be available on the Company's website www.chelvertonam.com.
13. None of the Directors has a contract of service with the Company.

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 11.00 am at the Association of Investment Companies, 9th Floor, 24 Chiswell Street, London EC1Y 4YY on Wednesday, 18 September 2013 and at any adjournment thereof.

Signature

Date 2013

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

- RESOLUTION 1** To receive the Report of the Directors and the audited financial statements for the year ended 30 April 2013.
- 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 Harris as a Director.
- RESOLUTION 5** To re-elect Mr van Heesewijk as a Director.
- RESOLUTION 6** To re-appoint Hazlewoods LLP as Auditor and to authorise the Directors to determine their remuneration.
- RESOLUTION 7** To authorise the allotment of shares.

FOR	AGAINST	VOTE WITHHELD

SPECIAL RESOLUTIONS

- RESOLUTION 8** To authorise the Directors to issue shares having disapplied pre-emption rights.
- RESOLUTION 9** Authority to buy back shares.
- RESOLUTION 10** Authority to hold general meetings on 14 clear days' notice.

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 Ordinary 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 Ordinary 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.
8. The termination of the authority of a person to act as proxy must be notified to the Company's Registrar in writing.
9. Please return this proxy form to Share Registrars Limited, Suite E, First Floor, 9 Lion and Lamb Yard, Farnham, Surrey GU9 7LL 63



